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CANADA

REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF COMMONS

for the

FISCAL YEAR ENDED MARCH 31

1971

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(as published in the Public Accounts)

THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act, *R.S., c. F-10.*

2. Subsection (2) of section 61 of the Act states that the Report of the Auditor General shall be laid before the House of Commons by the Minister of Finance on or before December 31 or, if Parliament is then not in session, within 15 days after the commencement of the next ensuing session.

I have been unable to complete my Report on the results of my examinations for the year ended March 31, 1971 within this timetable due to circumstances beyond my control.

3. In accordance with the requirement of subsection (1) of section 61 of the Act, I now report to the House of Commons on the results of my examinations of the expenditure and revenue transactions in the year ended March 31, 1971. This subsection reads:

> The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that
>
> (*a*) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
>
> (*b*) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
>
> (*c*) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
>
> (*d*) an expenditure was not authorized or was not properly vouched or certified,
>
> (*e*) there has been a deficiency or loss through the fraud, default or mistake of any person, or
>
> (*f*) a special warrant authorized the payment of any money,
>
> and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

4. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1971 and the Statement of Assets and Liabilities as at that date, prepared by the Receiver General for inclusion in the Public Accounts, have been examined and certified by me as required by section 60 of the Financial Administration Act, subject to my comments in this Report. Copies of these financial statements are appended as Exhibits 1 and 2. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments and the Summary of Revenue by Main Classification and Departments, both as included in the 1971 Public Accounts, have also been examined and certified and copies are appended as Exhibits 3 and 4.

Scope of Audit

5. Examinations of the departmental accounts for the year ended March 31, 1971 were made in conformity with section 58 of the Financial Administration Act which reads:

> The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion
>
> (*a*) the accounts have been faithfully and properly kept;
>
> (*b*) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue;
>
> (*c*) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized; and
>
> (*d*) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

The work of the Audit Office, covering both the audit for authority (legislative audit) and the financial audit, has continued along the usual lines during the past year. In accordance with generally accepted auditing standards, verification has been limited to such tests of the accounting records and other supporting evidence as were considered necessary in the circumstances.

In my Reports to the House over the past two years I have mentioned certain factors which must be taken into account in determining the extent and scope of our audit work. I also described some of the difficulties faced by the Office in increasing the scope of its audit work in the face of the growth of government expenditures and revenues and the increasing complexity of its operations. These difficulties have remained throughout the past year with the added burden of staff unrest caused by the action of the Treasury Board in maintaining its downgrading of all of the senior positions in the Office. Further particulars of this are given in paragraph 8.

Meanwhile examinations during the past year covered all departments, Crown corporations and other agencies of the Government of Canada except those corporations and other instrumentalities whose accounts are subject to examination by other auditors. Members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations and other agencies. In addition, they were readily provided with all supplementary information and explanations required. I should like to express my appreciation for the co-operation thus extended by departmental officers and by the administrative and accounting officers of Crown corporations and other agencies.

Office of the Auditor General

Office Accommodation

6.The Office had been located in the Justice Building since 1953, occupying 18,000 sq.ft. on the ground and first floors which the Department of Public Works

estimated had a rental value of $3.50 per sq.ft., amounting to $63,000 per annum. This space always provided most suitable accommodation for the Office without any need to consider alternative or larger accommodation.

Last year the Department of Justice which was occupying the remainder of the building asked us to vacate in order to make additional space available within the building for their expansion. I agreed that the Office should co-operate notwithstanding the obviously increased cost which would result. Suitable alternative accommodation was located in La Promenade, 151 Sparks Street, Ottawa, where 23,349 sq.ft. have been rented for ten years from November 1, 1971 at an annual rental of $128,705 ($5.51 per sq.ft.) which, with the addition of a payment to the lessor of up to $50,000 towards the cost of partitions and related installations, brings the total cost of occupancy to $5.81 per sq.ft. over the term of the lease. The Office moved into its new premises on the weekend of December 4, 1971.

Under a proposal to be submitted by the Department of Public Works to the Treasury Board, rental costs such as these, presently charged to Public Works Vote 10, will, effective in 1973-74, become a charge to the individual departments and agencies which will reimburse the Department of Public Works for the accommodation provided to them. In a circular letter sent on November 15, 1971 to all departments and agencies for which the Department of Public Works provides accommodation, the Department states that it believes such action will enable departments to identify more accurately total accommodation costs of government as well as making departments responsible for determining their space needs by making them financially responsible. Such action, both in the field of rental costs and costs of other services provided free to departments and agencies, was first recommended in my 1960 Report to the House. In paragraphs 11 to 14 of that Report, when referring to the importance of achieving a more accurate and realistic cost of government operations, I recommended that accounting anomalies and inconsistencies of this kind be remedied in order that the accounts relating to parliamentary appropriations might more accurately record the expenditure incurred for the various services. These recommendations were subsequently endorsed in 1962 by the Royal Commission on Government Organization.

Bilingualism in the Public Service

7. As a body charged with examining and reporting on the accounts and financial transactions of all government departments, agencies and the majority of the Crown corporations, the Office of the Auditor General must work in the language of its clients. Today this language continues to be predominantly English in the areas of accounting and finance and consequently most of the work of the Office is conducted in that language. It is hoped that opportunities will become available for French-speaking members of the staff to work in the language of their choice. In the meantime many of the English-speaking members seek to perfect their knowledge of French in the belief that Canada's second language will be employed to a greater degree as a working language in these areas. Where this has or will

shortly become the case, the Audit Office wishes to co-operate to the fullest possible extent.

Downgrading of the Senior Staff Positions

8. Reference was made last year to the action of the Treasury Board in reclassifying or downgrading the 28 senior positions in the Audit Office, namely those of Director, Assistant Director and Regional Supervisor, all of which were downgraded in relation to similar positions in other government departments. On December 1, 1970 I asked the Public Accounts Committee to recommend to the Treasury Board that a separate category be established to reflect the type of independent external auditing work carried out by my officers. In expressing its deep concern to the House on December 18, 1970 over this serious problem, the Committee recommended instead that a suitable bench-mark be determined and that this be accomplished by February 1, 1971. A bench-mark was determined but it was only on November 15, 1971 that my Office was informed by the Treasury Board Secretariat that the downgrading was to stand unchanged.

In my opinion, this action by the Treasury Board Secretariat is unfair and discriminates against the Auditor General. It should be corrected forthwith. If it is allowed to stand it will mean that his Office is prevented from employing auditors in the highest classification in the Public Service of Canada. It will also mean that in order to reach the highest classification in their profession, his most experienced auditors must leave the Office of the Auditor General.

This action points up more clearly than anything else that if the Auditor General of Canada is to be truly independent he must be free to recruit the staff he needs and to determine their salary levels within the framework of the Public Service of Canada.

International

9. The Auditor General of Canada has continued to serve as a member of the Board of Auditors of the United Nations during the past year and is currently its Chairman. He was appointed by the General Assembly of the United Nations on November 20, 1967 for a three-year term beginning July 1, 1968, and on November 16, 1970 the General Assembly reappointed him for a second three-year term beginning July 1, 1971. In addition, the Auditor General has continued to serve, since 1956, as External Auditor of the International Civil Aviation Organization, one of the specialized agencies of the United Nations. These assignments, which are undertaken at the request of the Government, provide valuable experience for the staff of the Audit Office, with travel and salary costs being recovered in all cases.

As mentioned in my Report to the House last year, Canada acted as host to the VIIth Congress of the International Organization of Supreme Audit Institutions (INTOSAI) held in Montreal, September 7-16, 1971. This Congress was attended by

Auditors General, their counterparts or representatives from 87 countries. The subjects discussed included audit staff personnel—selection and training; electronic data processing and other technological aids; management or operational auditing; and the implementation of recommendations made by the various world audit institutions. Excellent position papers were prepared by the various countries and the record of discussions and conclusions reached will shortly be available for world-wide distribution in English, French and Spanish.

The members of INTOSAI and others interested in its work have been unanimous in their praise of the Congress and the preparations and arrangements made by Canada in its role as the host country. The work of the Canadian Audit Office in handling this large gathering was greatly assisted by kindness and courtesies on every hand, in particular by the Governor General of Canada, the Speaker of the House of Commons, the Government of the Province of Quebec, the Mayor and Council of the City of Montreal, the Canadian Institute of Chartered Accountants and the Institute of Chartered Accountants of Quebec. Special mention should be made of the members of the staffs of the Canadian Audit Office, the Translation Bureau of the Department of the Secretary of State, the Canadian Government Printing Bureau of the Department of Supply and Services, and other departments, as well as the many other people who worked so hard to make our visitors welcome at this large gathering.

In describing the nature of this VIIth Congress and its estimated costs in my Report last year, I advised the House that the latter had been estimated at $208,000, of which about $70,000 was the estimated value of the services to be provided by other departments. This estimate was based on known requirements only and no provision was made for contingencies. The final cost amounted to $243,000 all of which was met from amounts provided in the Estimates of the Office for the fiscal years 1970-71 and 1971-72. The excess was due to professional and special services being $14,000 more than the amount of $51,000 forecast for this expenditure, and printing and stationery being $21,000 more than the amount forecast of $20,000.

Standing Committee on Public Accounts

10. After holding three meetings in June 1969 on the subject of paragraph 148 of my 1968 Report—Concessions made to motor vehicle manufacturers—the Public Accounts Committee resumed its examination of this Report on January 20, 1970 and completed it on November 26, 1970.

On December 1, 1970 the Committee commenced its examination of my 1969 Report which it concluded on June 30, 1971. It presented the following reports to the House:

First Report	November 26, 1970
Second Report	December 18, 1970
Third Report	January 28, 1971

Fourth Report	February 22, 1971
Fifth Report	March 10, 1971
Sixth Report	June 30, 1971
Seventh Report	October 7, 1971

On October 7, 1971 the Committee commenced its examination of my 1970 Report.

Recommendations and Observations by the Standing Committee on Public Accounts not yet implemented or dealt with

11. My Report to the House last year included a listing of 41 recommendations and observations by the Public Accounts Committee which were awaiting implementation by the Executive or further consideration by the Committee.

The Executive has implemented three of these recommendations:

Fourth Report 1964-65
Unemployment Insurance Fund and its administration

Eighth Report 1966-67
Cost of salvaging sunken vessel

First Report 1970-71
Internal audit of Canada Pension Plan administrative costs

The recommendation included in the Committee's Third Report 1969-70 concerning the refit and improvement of H.M.C.S. *Bonaventure* was partially implemented when the Ministers of National Defence and Supply and Services appeared before the Committee and provided the information it was seeking. The remainder of the recommendation was withdrawn when the Committee accepted the assurance of the Minister of Supply and Services that there is insufficient basis for any legal claim against the shipyard for recovery of $4,173 which the Committee had considered to be a duplication of payment.

In 1970 the Committee made several recommendations which conflicted with recommendations which the Committee first made to the House in 1964 and reiterated in 1966. It would therefore appear that the original recommendations which have remained outstanding for a number of years will not be implemented:

Fourth Report 1964-65
Office of the Auditor General

Eighth Report 1964-65
Accounts not examined by the Auditor General

Third Report 1966-67
Salary of the Auditor General

Eleventh Report 1966-67
Central Mortgage and Housing Corporation— Appointment of auditors

It would also appear that two other recommendations can no longer be implemented because of the efflux of time:

Sixth Report 1964-65
The Canada Council

Eighth Report 1966-67
Inadequate control of stores at northern locations

Thus of the 41 recommendations which had not been implemented or otherwise dealt with at March 31, 1970, 31 remain. Seven additional recommendations which are capable of specific implementation but which have not yet been implemented have been made by the Committee (see Appendix 1, items 32 to 38).

In its Sixth Report 1970-71 to the House, the Committee recommended that the Auditor General give consideration to six changes in the preparation of his next Report. The first three changes suggested called for grouping of paragraphs on departments and Crown corporations in two separate sections, alphabetical arrangement of the paragraphs thereunder, and the grouping together of numbered paragraphs relating to the same department and the same Crown corporation. I have pointed out to the Committee that, as the Table of Contents shows, such grouping has always been the sequence followed in arranging the paragraphs in my Report.

The fourth and fifth changes suggested were that comments be grouped for each department and Crown corporation under headings such as Non-Productive, Legislative, Administrative, Errors, Possible Dishonesty or Fraud, Other, and that each non-productive item show its total at the end of its title. I have advised the Committee that after considering these proposals I have decided to continue my present practice of placing the facts before the House without unnecessary identification of departments and persons or attempting to pre-judge the type or nature of the comment. I have always believed that, in rendering his Report to the House of Commons, the Auditor General should be free to present the facts and make his comments without attempting to categorize them by type, departments, Crown corporations or any other way.

The sixth suggestion was that the Report be produced in one volume instead of two. This will always be done unless unusual circumstances, as existed in the case of the 1969 Report, render it desirable to do otherwise.

Summary of Expenditure and Revenue

12. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1971, prepared by the Receiver General for inclusion in the Public Accounts and certified by the Auditor General as required by section 55 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The Statement shows revenue of $12,803 million, expenditure of $13,182 million and a deficit of $379 million for the year. By comparison, there was a surplus of $393 million in the preceding year and a deficit of $576 million in 1968-69.

Expenditure

13. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1971, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of $13,450 million, expenditures of $13,182 million and unexpended balances of $268 million.

14. Of the $13,450 million of appropriations available for expenditure in the year, $6,507 million was provided by statutory authorities and $6,909 million was granted by Appropriation Acts (Nos. 2, 3 and 4 of 1970 and No. 1 of 1971) while $34 million remained available from continuing 1969-70 appropriations.

The $13,182 million of expenditure is the net of total expenditure of $13,471 million less revenue of $289 million which was credited to appropriations under authority of Appropriation Acts which authorized departments to spend certain revenues received during the year. Not included in this figure is expenditure of $55 million from postal revenue. Gross expenditure during the year was therefore $13,526 million of which $6,562 million (48.5%) was incurred under statutory authorities, and $6,964 million (51.5%) was spent under the authority of appropriations granted for the year and continuing appropriations of previous years.

Of the $268 million of unexpended balances at the year-end, $221 million lapsed in compliance with section 30 of the Financial Administration Act and $47 million pertaining to the following departments and votes remained available for expenditure in 1971-72 because of the special wording of the appropriations:

Department	Vote	Particulars	Amount
External Affairs	20	International Food Aid Program	$ 5,556,000
Finance	11a	Assistance to the Governments of Manitoba and New Brunswick in meeting costs relating to floods in 1970	2,800,000
Labour	7b	Supplementary unemployment insurance benefits	28,420,000

Department	Vote	Particulars	Amount
Manpower and Immigration	10	Development and Utilization of Manpower—contributions to provinces for capital expenditure on occupational training facilities	$ 15,000
Secretary of State (1968–69)	2	Construction or acquisition of buildings, works, land and equipment—National Arts Centre	217,000
Secretary of State	22a	Centenary of the Confederation of British Columbia with Canada—program expenditures, grants and contributions	9,845,000
			$ 46,853,000

15. The lapsed balances of $221 million represented 3.2% of the $6,943 million provided under Appropriation Acts. This was after transferring a total of $25 million between votes with parliamentary authority, thus reducing by $25 million the amount which would otherwise have lapsed at the year-end and the Supply that Parliament would otherwise have been asked to provide. An additional $65 million, the balance remaining at the year-end in Treasury Board Vote 5, Contingencies, was transferred from the Vote, with parliamentary approval, to a reserve for the payment of salary increases with respect to the 1970-71 and previous fiscal years. In 36 votes of 19 departments, lapsing balances aggregating $72.5 million represented more than 10% of the amounts appropriated. These include the following votes in which the lapsed balance represented 25% or more of the appropriation:

		Lapsed	
	Appropriated	Amount	%
Regional Economic Expansion Vote 5—Capital	$ 10,074,000	$ 5,642,000	56
Consumer and Corporate Affairs Vote 20—Operating	154,000	67,000	44
Energy, Mines and Resources Vote 25—Grants	4,147,000	1,388,000	33
Indian Affairs and Northern Development Vote 75—National Battlefields Commission	439,000	139,000	32
Manpower and Immigration Vote 25—Appeal Board	1,000,000	265,000	27
Finance Vote 25—Tariff Board	398,000	104,000	26
Transport Vote 55—Canadian Transport Commission—Operating	9,659,000	2,373,000	25

16. The following summary compares expenditure for the fiscal year 1970-71 with that of the previous year:

			Increase (Decrease)	
	1970–71	1969–70	Amount	%
Agriculture	$ 277,006,000	$ 382,256,000	$ (105,250,000)	(27.5)
Communications and Post Office	382,493,000	353,944,000	28,549,000	8.1
Consumer and Corporate Affairs	20,219,000	16,697,000	3,522,000	21.1
Energy, Mines and Resources	199,747,000	195,739,000	4,008,000	2.0
External Affairs	281,585,000	242,226,000	39,359,000	16.2
Finance	3,139,544,000	2,844,934,000	294,610,000	10.4
Fisheries and Forestry	79,831,000	76,867,000	2,964,000	3.9

	1970–71	1969–70	Increase (Decrease) Amount	%
Governor General and Lieutenant-Governors............$	1,153,000	$ 1,124,000	$ 29,000	2.6
Indian Affairs and Northern Development..............	355,306,000	305,912,000	49,394,000	16.1
Industry, Trade and Commerce.	250,569,000	296,130,000	(45,561,000)	(15.4)
Justice......................	22,734,000	19,662,000	3,072,000	15.6
Labour.....................	191,529,000	155,519,000	36,010,000	23.2
Manpower and Immigration....	570,750,000	439,511,000	131,239,000	29.9
National Defence............	1,817,876,000	1,788,428,000	29,448,000	1.6
National Health and Welfare...	2,339,603,000	1,956,724,000	382,879,000	19.6
National Revenue............	158,834,000	144,583,000	14,251,000	9.9
Parliament..................	27,236,000	22,989,000	4,247,000	18.5
Privy Council...............	60,042,000	55,187,000	4,855,000	8.8
Public Works................	330,658,000	286,773,000	43,885,000	15.3
Regional Economic Expansion..	326,231,000	236,061,000	90,170,000	38.2
Secretary of State............	707,940,000	553,156,000	154,784,000	28.0
Solicitor General.............	222,789,000	184,084,000	38,705,000	21.0
Supply and Services..........	74,647,000	82,292,000	(7,645,000)	(9.3)
Transport...................	470,427,000	467,343,000	3,084,000	.7
Treasury Board..............	463,433,000	391,095,000	72,338,000	18.5
Veterans Affairs..............	409,961,000	422,359,000	(12,398,000)	(2.9)
	$ 13,182,143,000	$ 11,921,595,000	$1,260,548,000	10.6

NOTE: Appropriation Act No. 3, 1970, *1969-70, c.46*, authorized the Departments of Agriculture, Indian Affairs and Northern Development, Insurance, National Defence, and National Health and Welfare to credit certain revenue to their votes instead of recording it as non-tax revenue. For purposes of comparison, the expenditure figures for the previous year have been adjusted by the removal therefrom of expenditure totalling $9,694,000.

In the following paragraphs attention is drawn to significant increases or decreases in expenditure charged to individual appropriations or groups of appropriations.

17. *Agriculture.* There was no counterpart in the year to the 1969-70 provision of $100 million to establish a reserve for wheat acreage reduction payments. Other decreases were $9.9 million (7.3%) in the operating loss of the Agricultural Stabilization Board and $1.2 million (46%) in payments of quality premiums on high grade hog and lamb carcasses. Administration expenditure increased by $2.4 million (27%).

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of $981,000 paid during the year and charged to the reserve for salary revisions.

18. *Communications and Post Office.* A net increase of $468,000 (3.5%) in departmental expenditure, exclusive of the Post Office, was largely due to an increase of $2.2 million (14%) in operating expenditure offset by an increase of $1.7 million (25%) in revenue credited to the vote.

The departmental expenditure for 1970-71 does not include retroactive salary adjustments of $163,000 paid during the year and charged to the reserve for salary revisions.

The net expenditure of the Post Office increased by $28 million (8.2%), from $340 million to $368 million. This increase was more than accounted for by an increase of $30 million in salaries and allowances.

The Post Office expenditure for 1970-71 does not include retroactive salary adjustments of $9.7 million paid during the year and charged to the reserve for salary revisions.

19. *Consumer and Corporate Affairs.* The increase of $3.5 million (21%) in expenditure included increases of $556,000 (44%) in administration and $850,000 (13%) in the Consumer Affairs Program while the expenses of the Prices and Incomes Commission, reflecting a full year's operations, increased to $2.1 million from $600,000 in 1969-70.

20. *Energy, Mines and Resources.* The expenditure of the Atomic Energy Control Board increased by $1.8 million (31%), the National Energy Board by $454,000 (23%), and the Water Resources Program by $4.5 million (9.7%), while the expenditure of the Dominion Coal Board decreased by $2.7 million (31%).

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of $460,000 paid during the year and charged to the reserve for salary revisions.

21. *External Affairs.* The expenditure of the Canadian International Development Agency increased by $41 million (24%) due to increases of $26 million (34%) in the International Food Aid Program, $7.6 million (13%) in International Development Assistance, $2.3 million (40%) in the cost of administration, $2.1 million (33%) in contributions to non-governmental organizations for approved development assistance projects, $1.7 million (113%) for International Emergency Relief, and $1.4 million to the International Development Research Centre for which there was no corresponding item in 1969-70.

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of $125,000 paid during the year and charged to the reserve for salary revisions.

22. *Finance.* There was an increase of $128 million (9.9%) in interest on outstanding bonds and treasury bills, offset in part by a decrease of $22 million (7%) in the charge to the Department of Finance for interest on the superannuation accounts because of a distribution for the first time of a portion of the public debt charges as expenditure of other departments. Subsidies and other payments to the provinces increased $297 million (32%), disbursements under the Canada Student Loans Act, *R.S., c. S-17,* by $9 million (75%) and administration costs by $1.1 million

(24%). The write-off in 1969-70 of $123 million loaned to the Canadian Corporation for the 1967 World Exhibition had no counterpart in 1970-71.

23. *Indian Affairs and Northern Development.* An increase of $24 million (12%) in the cost of the Indian and Eskimo Affairs Program comprised increases of $16 million (9.8%) in operating expenditure and $8 million (18%) in capital expenditure. An increase of $23 million (40%) in the cost of the Northern Development Program included $8 million (44%) in operating expenditure and $13 million (53%) in grants, contributions and fiscal transfer payments to the Yukon Territory and the Northwest Territories.

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of $1.2 million paid during the year and charged to the reserve for salary revisions.

24. *Industry, Trade and Commerce.* A decrease of $66 million (55%) in the cost of the Grains Program was partly offset by increases of $15 million (11%) in expenditure under the Trade-Industrial Program and $6.6 million (21%) in operating expense of Statistics Canada. The decrease in the cost of the Grains Program comprised $44 million (55%) in respect of the carrying costs of temporary wheat reserves and $22 million (54%) in payments to the Canadian Wheat Board. In the Trade-Industrial Program there were increases of $6.5 million (9.4%) in expenditure to advance the technological capabilities of Canadian industry and $7.1 million (31%) in general incentives to industry for the expansion of scientific research and development in Canada. There was a decrease of $1.2 million (28%) in the costs of Canada's participation in world exhibitions.

25. *Justice.* The Department's operating expenditure increased by $2.4 million (35%) due mainly to additional salary costs.

26. *Labour.* The increase in expenditure was due mainly to the payment of supplementary benefits to persons insured under the Unemployment Insurance Act, *R.S., c. U-2,* amounting to $26 million which had no counterpart in 1969-70. Other increases included $8.3 million (18%) in administrative costs of the Unemployment Insurance Commission and $743,000 (22%) in compensation for injury and other claims by public service employees.

27. *Manpower and Immigration.* Expansion of the training program under the Adult Occupational Training Act, *R.S., c. A-2,* resulted in increases of $20 million (17%) in the cost of training and $25 million (19%) in training allowances. Capital assistance for provision of training facilities increased $82 million (93%) due to new arrangements providing for payment to the provinces of assistance prior to the actual construction of occupational training facilities. Other increases included $1.4 million (23%) in manpower mobility payments and $169,000 (30%) in the expenditure of the Immigration Appeal Board.

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of $177,000 paid during the year and charged to the reserve for salary revisions.

28. *National Defence.* The net increase in expenditure of $29 million (1.6%) included $46 million in interest payments to the Canadian Forces Superannuation Account and $3.6 million in the Government's contribution to the Supplementary Retirement Benefits Account which had no counterparts in 1969-70, and $5 million (7.3%) in the Government's contribution to the Canadian Forces Superannuation Account. Offsetting these were decreases in expenditure for Defence Services of $22.8 million (10.8%) in construction or acquisition of buildings, works, land and major equipment and $5.7 million (42.9%) in development.

The Department's expenditure of $1,818 million does not include $782,000 expended from the Department's Surplus Crown Assets Account established by Vote 48, Appropriation Act No. 2, 1966, *1966-67, c.3,* into which is paid revenue received from the sale of surplus buildings, works, land, material, supplies and equipment; or retroactive salary adjustments of $6 million paid during the year which were charged to the reserve for salary revisions.

29. *National Health and Welfare.* The increase in expenditure comprised $380 million (20%) in departmental expenditure and $3 million (9.9%) in the amount expended by the Medical Research Council on scholarships and research grants. Departmental administration expense increased $1.4 million (24%). Payments under the Health Insurance and Resources Program were up $272 million (29%) mainly due to increased contributions to the provinces of $220 million (121%) pursuant to the Medical Care Act, *R.S., c. M-8,* and $98 million (15%) pursuant to the Hospital Insurance and Diagnostic Services Act, *R.S., c. H-8,* offset by decreases in payments of general health grants of $5.8 million (27%) and of hospital construction grants which were terminated, final payments of $44 million having been made in 1969-70. Expenditure for the Food and Drug Services Program increased by $3.4 million (28%) and for the Welfare Services Program by $98 million (11%), primarily due to increases of $97 million (33%) in payments to the provinces under the Canada Assistance Plan, *R.S., c. C-1,* and $2.3 million (23%) in operating expenditure, offset by decreases of $1.9 million (28%) in payments of old age assistance, and blind and disabled persons allowances.

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of $906,000 paid during the year and charged to the reserve for salary revisions.

30. *Parliament.* Expenditure increased $4.2 million (18%) due mainly to the increase of $1.3 million (22%) in salaries and expenses of the Members of the House of Commons and $2.1 million (19%) in the cost of administration. Expenditure of the Senate increased $550,000 (12%).

31. *Privy Council.* Expenditure of Central Mortgage and Housing Corporation increased by \$3.4 million (8%) and of the Chief Electoral Officer by \$878,000, from \$341,000 in 1969-70 to \$1.2 million in 1970-71.

32. *Public Works.* The increase of \$44 million (15%) included \$27 million (14%) in the cost of the Accommodation Program, \$13 million (48%) in Trans-Canada Highway costs under the Transportation and Other Engineering Program, and \$3.4 million (11%) in the Marine Program.

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of \$2.1 million paid during the year and charged to the reserve for salary revisions.

33. *Regional Economic Expansion.* Increases in expenditure included \$90 million (62%) in contributions to the provinces for economic expansion and social adjustment, \$3.8 million (21%) in the Department's operating expenditure, \$4.6 million (14%) in payments to the Cape Breton Development Corporation, and \$4.4 million (18%) in payments to the National Capital Commission. There was a decrease of \$4 million (47%) in the Department's capital expenditure and there was no counterpart in 1970-71 for the \$8.1 million payment in 1969-70 of Canada's share of trunk highway costs.

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of \$370,000 paid during the year and charged to the reserve for salary revisions.

34. *Secretary of State.* Payments to the provinces for post-secondary education increased by \$87 million (29%) while expenditure on the Bilingualism Development Program rose to \$53 million from \$1.7 million in 1969-70. Other increases were \$3.1 million (63%) in expenditure on citizenship programs, \$2.3 million (37%) in the cost of the Translation Bureau, and \$1.2 million (52%) and \$546,000 (27%) in administration expenditures of the Public Archives and the National Library. Expenditure of the Arts and Cultural Support Program was \$6.8 million compared with \$800,000 in 1969-70 and payments to the Canadian Film Development Corporation were \$998,000 compared with \$430,000 in 1969-70.

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of \$292,000 paid during the year and charged to the reserve for salary revisions.

35. *Solicitor General.* The expenditure of the Royal Canadian Mounted Police increased by \$33 million (29%), including \$19 million (20%) for pay increases and normal growth of the Force; \$6 million (87%) for capital expenditure, mainly for buildings at Headquarters; and \$7 million (28%) for pension costs which included \$2.3 million in interest payments to the Royal Canadian Mounted Police Superannuation Account that had no counterpart in 1969-70. Administration costs of the

Department increased by \$527,000 (64%) and operating expenditure of the National Parole Board by \$1.7 million (59%).

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of \$484,000 paid during the year and charged to the reserve for salary revisions.

36. *Supply and Services.* The decrease in expenditure was largely due to there being no counterpart in 1970-71 for reimbursement of losses amounting to \$5.7 million in the value of strategic material inventories in 1969-70. Increases in expenditure included \$1.5 million (28%) in the program expenditure of Information Canada, and \$1.2 million in the operating loss of Canadian Arsenals Limited.

37. *Transport.* Increases in expenditure included \$14 million (13%) in administration, operation and maintenance of Air Services, \$7.4 million (11%) in operating costs of the Marine Services Program, \$5 million (20%) in the deficit arising from the operations of the national railway system, and \$4 million (13%) in the Railways and Steamships Program. Decreases in expenditure included \$12 million (41%) in Marine Services for construction or acquisition of buildings, works, land and equipment, and \$6.1 million (71%) in expenditure of the National Harbours Board, due largely to a decrease in capital expenditure. Expenditure of the Canadian Transport Commission decreased by \$11 million (8.4%) due primarily to a decrease of \$14 million (18%) in payments to railways and transportation companies, under provisions of the National Transportation Act, *R.S., c. N-17,* and \$1.6 million (35%) in payments under provisions of the Atlantic Region Freight Assistance Act, *R.S., c. A-18,* offset by increases of \$5 million (33%) in payments to the Railway Grade Crossing Fund and \$1.4 million (24%) in the Commission's operating expenditure.

The operations of the Montreal and Toronto International Airports have been recorded in an Airports Revolving Fund since April 1, 1969 and are therefore not reflected in departmental expenditure.

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of \$2.2 million paid during the year and charged to the reserve for salary revisions.

38. *Treasury Board.* The increase in expenditure of \$72 million (18%) was due to increases of \$64 million (31%) in contributions to the Public Service Superannuation Account, which included \$49 million in interest payments that had no counterpart in 1969-70, \$6 million (11%) in the amount credited to the reserve for salary revisions, and \$1 million (20%) in the cost of administration.

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of \$958,000 paid during the year and charged to the reserve for salary revisions.

39. *Veterans Affairs.* There was a net decrease of $12 million (2.9%) in expenditure. The reduction was mainly due to decreases of $5.7 million (2.6%) in pensions for disability and death, $4.3 million (37%) in hospital construction and improvements, $3.1 million (3.4%) in war veterans allowances and $1.4 million (2.3%) in operation and maintenance of treatment services, offset in part by a $2.6 million (56%) increase in departmental administration, most of which resulted from the transfer of accounting staff from the Department of Supply and Services.

The Department's expenditure for 1970-71 does not include retroactive salary adjustments of $3 million paid during the year and charged to the reserve for salary revisions.

40. *Commissions under Part I of the Inquiries Act, R.S., c. I-13.* The expenditure of these Commissions during 1970-71 and their cumulative expenditure from the respective dates of establishment to March 31, 1971 were:

	Date of establishment	Number of employees at March 31, 1971	Expenditure during year	Cumulative expenditure
Royal Commission on:				
Pilotage	Nov. 1, 1962	8	$ 143,000	$ 1,471,000
Bilingualism and Biculturalism	July 19, 1963	9	269,000	8,998,000
Farm Machinery	May 26, 1966	6	157,000	1,545,000
The Status of Women in Canada	Feb. 16, 1967	3	274,000	1,934,000
Indian Claims Commission	Dec. 19, 1969	2	86,000	99,000
		28	*929,000*	*14,047,000*
The Commission of Inquiry into the Non-Medical Use of Drugs	May 29, 1969	57	931,000	1,392,000
Prices and Incomes Commission	June 19, 1969	111	2,069,000	2,638,000
Commission of Inquiry into the Pollution of Canadian Waters by oil escaping from the steam tanker *Arrow*	Mar. 12, 1970	2	138,000	138,000
		198	$ 4,067,000	$ 18,215,000

The expenditure of the first five of these Commissions was charged to Privy Council Vote 1 while the expenditure of The Commission of Inquiry into the Non-Medical Use of Drugs was charged to National Health and Welfare Vote 1, that of the Prices and Incomes Commission to Consumer and Corporate Affairs Vote 25, and that of the Commission of Inquiry into the Pollution of Canadian Waters by oil escaping from the steam tanker *Arrow* to Transport Vote 5.

Revenue

41. The Summary of Revenue by Main Classification and Departments for the fiscal year ended March 31, 1971, prepared by the Receiver General for inclusion in

the Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4 to this Report. The Summary shows tax revenue accounting for $11,346 million of the total revenue of $12,803 million. This total revenue figure does not include revenue of $289 million which was credited directly to parliamentary appropriations under authority of certain Appropriation Acts or postal revenue of $55 million which was used to meet certain postal expenses under authority of the Post Office Act, *R.S., c. P-14.*

42. The following table summarizes the revenue shown in the Summary, by principal sources, for the past three years:

	1970–71	1969–70	1968–69
Tax revenue—			
Personal income tax	$ 4,696,482,000	$ 4,085,121,000	$ 3,356,431,000
Corporation income tax	2,218,528,000	2,611,961,000	2,030,040,000
Income tax on dividends, interest, etc., going abroad	258,151,000	248,511,000	205,566,000
Social development tax	566,250,000	476,500,000	63,000,000
Sales tax	1,707,501,000	1,716,899,000	1,569,841,000
Excise taxes (other than sales tax)	403,223,000	378,424,000	377,865,000
Customs import duties	814,544,000	818,283,000	761,681,000
Excise duties	561,038,000	518,844,000	509,288,000
Estate tax	119,835,000	100,631,000	112,377,000
Other tax revenue	315,000	251,000	250,000
	11,345,867,000	*10,955,425,000*	*8,986,339,000*
Non-tax revenue—			
Return on investments	1,000,153,000	860,032,000	695,099,000
Net postal revenue	337,571,000	354,753,000	288,441,000
Other non-tax revenue	119,460,000	143,941,000	183,168,000
	1,457,184,000	*1,358,726,000*	*1,166,708,000*
	$ 12,803,051,000	$ 12,314,151,000	$ 10,153,047,000

NOTE: Appropriation Act No. 3, 1970, *1969-70, c.46,* authorized the Departments of Agriculture, Indian Affairs and Northern Development, Insurance, National Defence, and National Health and Welfare to credit additional revenue to their votes instead of recording it as non-tax revenue. For purposes of comparison, the non-tax revenue figures for the previous years have been adjusted by the removal therefrom of revenues totalling $9,694,000 in 1969–70 and $9,796,000 in 1968–69.

43. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, *R.S., c. 0-6.* These taxes which amounted to $1,914 million ($1,132 million on personal income, $208 million on corporation income, and $574 million on sales) were credited to the Old Age Security Fund.

44. *Excise taxes (other than sales tax).* The following is a summary of collections during the year ended March 31, 1971, with comparable amounts for the two previous years:

	1970–71	1969–70	1968–69
Cigarettes	$ 295,976,000	$ 272,949,000	$ 281,906,000
Television sets and tubes	24,414,000	25,137,000	19,976,000
Toilet articles and preparations	21,430,000	19,755,000	18,552,000
Manufactured tobacco	18,411,000	18,110,000	17,560,000
Phonographs, radios and tubes	14,142,000	15,627,000	15,370,000
Jewellery, clocks, watches, chinaware, etc.	10,190,000	10,394,000	9,462,000
Wines	8,064,000	6,991,000	5,860,000
Cigars	5,026,000	4,786,000	4,711,000
Sundry	7,196,000	5,830,000	5,201,000
Refunds and drawbacks	−1,626,000	−1,155,000	−733,000
	$ 403,223,000	$ 378,424,000	$ 377,865,000

45. *Excise duties.* A listing of excise duties collected during the year ended March 31, 1971, in comparison with corresponding amounts for the two previous years, is given in the following table:

	1970–71	1969–70	1968–69
Spirits	$ 209,361,000	$ 194,733,000	$ 185,368,000
Cigarettes	204,168,000	185,966,000	188,702,000
Beer	149,153,000	139,353,000	134,970,000
Other	8,042,000	7,906,000	7,977,000
Refunds and drawbacks	−9,686,000	−9,114,000	−7,729,000
	$ 561,038,000	$ 518,844,000	$ 509,288,000

46. *Return on investments.* The following is a listing of the revenue from the various loans and investments in 1970-71, along with the comparable figures for the two previous years:

	1970–71	1969–70	1968–69
Central Mortgage and Housing Corporation...$	265,959,000	$ 228,660,000	$ 199,070,000
Bank of Canada	250,293,000	228,735,000	186,155,000
Exchange Fund Account	175,485,000	105,073,000	84,510,000
Farm Credit Corporation	66,967,000	59,988,000	50,530,000
Canadian National Railways	58,431,000	50,706,000	35,858,000
Deposits with chartered banks	25,155,000	51,016,000	20,084,000
Loans to national governments	24,272,000	24,742,000	6,356,000
Veterans' Land Act loans	21,969,000	18,959,000	16,071,000
Municipal Development and Loan Act	14,585,000	14,627,000	14,193,000
Export Development Corporation	13,893,000	6,402,000	11,311,000
The St. Lawrence Seaway Authority	12,856,000	10,327,000	13,259,000
Loans pursuant to the Atlantic Provinces Power Development Act, *R.S., c. A-17*	8,935,000	5,728,000	3,062,000
Canadian Broadcasting Corporation	7,435,000	6,068,000	4,762,000
Canadian Dairy Commission	5,620,000	4,223,000	2,197,000
National Harbours Board	4,171,000	4,624,000	2,146,000
National Capital Commission	3,369,000	3,449,000	3,831,000
International Monetary Fund	3,179,000	203,000	3,013,000
Province of Quebec—Quebec's share re guarantee 1967 World Exhibition loan	2,559,000	3,298,000	1,911,000

	1970–71	1969–70	1968–69
Loans to industry . . . $	2,483,000	$ 1,689,000	$ 1,204,000
Northern Canada Power Commission	2,430,000	1,578,000	1,466,000
Special United States of America securities—Columbia River Treaty	2,392,000	3,834,000	5,209,000
Canadian Overseas Telecommunication Corporation	2,277,000	2,458,000	2,620,000
Airports capital loan appropriations	2,158,000	—	—
Polymer Corporation Limited	2,000,000	6,250,000	3,150,000
Sinking fund and other investments held for retirement of unmatured debt	1,967,000	640,000	913,000
Atomic Energy of Canada Limited	1,615,000	1,306,000	844,000
Government of the Northwest Territories	1,369,000	1,020,000	729,000
Government of the Yukon Territory	1,341,000	892,000	602,000
Defence Production Revolving Fund	1,340,000	856,000	715,000
Canada Deposit Insurance Corporation	1,144,000	804,000	1,008,000
Northern Transportation Company Limited	1,026,000	529,000	—
Other loans and investments	11,478,000	11,348,000	18,320,000
	$ 1,000,153,000	$ 860,032,000	$ 695,099,000

Revenue from Central Mortgage and Housing Corporation for 1970-71 comprised $257,039,000 ($218,930,000 in 1969-70) interest on advances under the National Housing Act, *R.S., c. N-10,* and $8,920,000 ($9,730,000 in 1969-70) profit for the year ended December 31, 1970 which was transferred to the Receiver General as required by section 30 of the Central Mortgage and Housing Corporation Act, *R.S., c. C-16.*

The amount shown as revenue from the Bank of Canada represents the profit for 1970 which was paid to the Receiver General as required by section 23 of the Bank of Canada Act, *R.S., c. B-2.*

Revenue from the Exchange Fund Account comprised earnings of $174,797,000 on investments and net profit of $688,000 from trading operations in foreign exchange, gold and securities, paid into the Consolidated Revenue Fund in accordance with the requirements of section 16 of the Currency and Exchange Act, *R.S., c. C-39.*

Interest is earned on amounts exceeding an aggregate of $100 million on deposit with chartered banks. The interest is calculated weekly on the lowest daily balance within the week at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%.

Revenue from loans to national governments included receipts from the United Kingdom of $3,462,000 covering current interest on deferred principal and interest, and $17,300,000 covering current interest on the unmatured portion of the loan.

Revenue from the Export Development Corporation in 1970-71 represented interest received on long-term loans made to the Corporation under section 13 of the Export Development Act, *R.S., c. E-18,* to enable it to make loans to foreign customers. In prior years the revenue comprised interest received on individual loans to foreign customers. The change in financing arrangements resulted in interest, which under the previous arrangements would have been recorded in 1969-70, being carried over to 1970-71.

Revenue from The St. Lawrence Seaway Authority comprised $11,708,000 received on account of deferred interest and $1,148,000 on account of current interest.

Revenue from the Canadian Dairy Commission represents interest on loans made tò the Commission by the Minister of Finance under the authority of section 16 of the Canadian Dairy Commission Act, *R.S., c. C-7.*

Revenue of $3,179,000 from the International Monetary Fund is Canada's share of the portion of the net income of the Fund for the fiscal year ended April 30, 1970 which was distributed pursuant to Article XII section 6(b) of its Articles of Agreement.

The revenue of $2,559,000 from the Province of Quebec represents interest on notes held by Canada with respect to the Province's share of the deficit of the Canadian Corporation for the 1967 World Exhibition.

Revenue from loans to industry consists mainly of interest on loans to manufacturers of automotive products in Canada affected by the Canada-United States Agreement on Automotive Products.

Revenue of $2,392,000 from special United States of America securities represents interest for the year ended November 1, 1970 at 4 1/4% on holdings of $58 million.

Revenue from airports capital loan appropriations represents interest on capital expenditures at Montreal and Toronto International Airports commencing in 1969-70 which is charged as an expense to the Airports Revolving Fund.

Revenue from Polymer Corporation Limited represents dividends received from the Corporation.

47. *Net postal revenue.* The following table shows the gross postal revenue, disbursements therefrom, and the resulting net postal revenue for the year ended March 31, 1971, with comparable figures for the two previous years:

	1970–71	1969–70	1968–69
Gross postal revenue	$ 418,179,000	$ 430,378,000	$ 363,339,000
Less: Revenue from financial and miscellaneous services credited to Communications and Post Office Vote 10	25,502,000	23,393,000	22,184,000
	392,677,000	406,985,000	341,155,000
Disbursements—Remuneration of postmasters and staffs at certain classes of small post offices	49,342,000	46,340,000	47,168,000
Other	5,764,000	5,892,000	5,546,000
	55,106,000	*52,232,000*	*52,714,000*
Net postal revenue	$ 337,571,000	$ 354,753,000	$ 288,441,000

NOTE: In 1970–71 and 1969–70 revenue of $25,502,000 and $23,393,000 from financial and miscellaneous services was credited to the Post Office appropriation, as authorized in the appropriation. For purposes of comparison the corresponding amount is shown as a deduction from gross postal revenue for 1968–69.

The amounts shown for "Other" disbursements comprise delivery charges on parcels mailed in Canada to foreign countries and transit charges on Canadian mail forwarded through foreign countries, compensation paid to messengers for special delivery of letters and parcels, losses by fire, theft, forgery, etc., and indemnities paid in respect of lost or damaged parcels and registered articles.

48. *Other non-tax revenue.* An analysis of the amounts shown for "Other non-tax revenue" for the past three years follows:

	1970–71	1969–70	1968–69
Services and service fees	$ 17,065,000	$ 18,104,000	$ 20,494,000
Proceeds from sales	14,016,000	16,366,000	16,739,000
Privileges, licences and permits	26,294,000	24,510,000	28,133,000
Refunds of previous years' expenditure	23,045,000	29,447,000	23,665,000
Bullion and coinage	19,946,000	19,940,000	74,764,000
Miscellaneous	19,094,000	35,574,000	19,373,000
	$ 119,460,000	$ 143,941,000	$ 183,168,000

NOTE: In 1970–71 and 1969–70 revenue from Medical Services provided by the Department of National Health and Welfare was credited to the related appropriation as authorized in those appropriations. In 1970–71, Appropriation Act No. 3, 1970, *1969-70, c.46,* authorized the Departments of Agriculture, Indian Affairs and Northern Development, Insurance, National Defence, and National Health and Welfare to credit additional revenue to appropriations instead of recording it as non-tax revenue. For purposes of comparison the corresponding revenues have been deleted from the amounts for the previous years.

Comments on Expenditure and Revenue Transactions

49. Reference has already been made to the statutory responsibility of the Auditor General, under section 61 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and to any other case that he considers should be brought to the notice of the House of Commons.

Pursuant to this direction, the following matters relating to the expenditure and revenue transactions examined during the year are brought to the attention of the House in this Report. Several matters of a similar nature relative to Crown corporations are also included. A number involve non-productive payments, the details of which are given at the request of the Public Accounts Committee. Some of these had their origin in prior years although in most cases payments were made in 1970-71.

50. *Weakening of parliamentary control.* Reference was made in paragraph 47 of our 1970 Report to the inclusion in the 1969-70 Estimates of amounts which were not required to meet expenditure coming in course of payment during that year. Nevertheless they were recorded as expenditure of the year under the authority of special wording in the several vote texts in the Appropriation Acts. These amounts, totalling $172,685,000, formed part of certain balances totalling $296,663,000 at March 31, 1970 which were available without further reference to Parliament to meet obligations coming in course of payment subsequent to that date. We pointed out that one of the most important controls exercised by Parliament over public expenditure was provided by section 20 of the Financial Administration Act which directs that:

> All estimates of expenditures submitted to Parliament shall be for the services coming in course of payment during the fiscal year.

We gave some of the background to this requirement showing that when it was first introduced in 1863 in England it was hailed as practically guaranteeing the control of public expenditure by Parliament.

Included in the Estimates for 1970-71 are the following amounts which were not required during the year but which, because of special wording in the vote texts in the Appropriation Acts, were recorded as expenditure but retained for spending in subsequent years:

Secretary of State Vote 50—Canadian Broadcasting Corporation	$ 61,000
Transport Vote 75—National Harbours Board—Special Account	452,000
Treasury Board Vote 5—Reserve for salary revisions 1970–71	65,038,000
	$ 65,551,000

The amount of $61,000 shown for the Canadian Broadcasting Corporation is the portion of Secretary of State Vote 50 which was paid to the Corporation, although it was not required to meet the 1970-71 operating expenditure of the broadcasting service. Prior to 1969-70 such excess amounts in the appropriations lapsed. An amount of $11,993,000 paid to the Corporation in 1969-70 was similarly not required to meet operating expenditure of that year and was used in 1970-71 to finance in part capital expenditure of $30,335,000, the balance being financed from working capital and loans. Secretary of State Vote L55 authorized loans of $25,323,000 to the Corporation for capital purposes but none of this was borrowed and the entire amount is available to the Corporation for use in future years.

The amount of $452,000 shown for the National Harbours Board—Special Account is the unspent balance of the $1,200,000 provided by Transport Vote 75 for the construction of retaining walls along the banks of the St. Charles River between the proposed dam at the mouth of the River and Scott Bridge at Quebec Harbour. The work is being carried out by the Department of Public Works and the only involvement of the National Harbours Board appears to be in the reimbursement of claims submitted by that Department. The dam at the mouth of the St. Charles River was under construction by the Department of Public Works in the period 1965-66 to 1969-70 with expenditures totalling $2.1 million provided by annual appropriations for that Department.

While the Canadian Broadcasting Corporation and the National Harbours Board are separate legal entities, they are nevertheless emanations of the Crown, and the placing of such sums at their disposal is a means of circumventing Parliament's instruction that all estimates that are submitted to it shall be for services coming in course of payment during the fiscal year.

The reserve for salary revisions is held in a special account in the Consolidated Revenue Fund, which is included under the caption "Undisbursed Balances of Appropriations to Special Accounts" on the year-end Statement of Assets and Liabilities of the Government of Canada.

Other amounts included in the Estimates of the year and in the recorded expenditure of the year although not paid out by the entities concerned during the year were:

1. the $3,415,000 by which transfers from appropriations to the National Capital Fund exceeded the net expenditure from the Fund during the year. These transfers are made in accordance with the provisions of the National Capital Act, *R.S., c. N-3*;

2. the $703,000 by which the payment of $1,900,000 to the Company of Young Canadians pursuant to Secretary of State Vote 70 exceeded the expenditure of the Company during the year; and

3. the $419,000 by which the payment of $2,625,000 to the National Arts Centre Corporation pursuant to Secretary of State Vote 75 exceeded the expenditure of the Corporation during the year.

Had the amounts which were not required in 1970-71 not been recorded as expenditure of the year, the deficit for the year would have been $70,088,000 (18%) less.

At March 31, 1971 funds available without further reference to Parliament to meet expenditures for services coming in course of payment subsequent to that date, which would normally be paid from future years' appropriations, together with comparable amounts at the end of the preceding year, included:

	March 31, 1971	March 31, 1970
Reserve for salary revisions	$ 99,213,000	$ 64,332,000
International Assistance Account	82,599,000	84,942,000
Reserve for wheat inventory reduction payments	42,412,000	100,000,000
Department of National Defence:		
Surplus Crown Assets Account	22,991,000	10,769,000
Replacement of materiel account	1,530,000	681,000
	24,521,000	*11,450,000*
Canadian Dairy Commission	19,734,000	7,534,000
National Capital Fund	16,943,000	13,528,000
Railway Grade Crossing Fund	3,373,000	—
Company of Young Canadians	838,000	135,000
Centennial of Confederation Fund	801,000	848,000
National Arts Centre Corporation	567,000	148,000
National Harbours Board—Special Account	452,000	2,036,000
National Museums of Canada purchase account	179,000	27,000
Canadian Broadcasting Corporation	61,000	11,993,000
	$ 291,693,000	$ 296,973,000

We reiterate our view that one of the most important controls exercised by Parliament over public expenditure is its requirement that all estimates of expenditure submitted to it shall be for the services coming in course of payment during the fiscal year. This control is seriously weakened when funds are credited to special accounts to be available for spending in future years.

51. *Government Contingencies Program.* In previous Reports (paragraph 48 in 1970) we have referred to the annual Contingencies Vote provided to the Treasury Board to supplement other votes for paylist and other requirements and to provide for miscellaneous minor and unforeseen expenses. Authority is also provided to re-use any sums allotted from this Vote for non-paylist requirements and repaid from other appropriations. By having such a vote available, the Treasury Board Secretariat is able to instruct departments to provide in their estimates only for known requirements and not to include any cushion against unexpected obligations.

In recent years the annual provision has been substantial due to widespread salary increases in the government service. The following summary shows the annual provision in each of the past five years, the extent to which it has been used for transfers to other votes that were not recovered from supplementary appropriations, and the unused balance at the year-end:

	Provided	Transferred to other votes: Paylists	Transferred to other votes: Miscellaneous	Unused balance: Lapsed	Unused balance: Transferred to reserve account
1966-67	$ 110,000,000	$ 106,227,000	$ 572,000	$ 3,201,000	$
1967-68	45,000,000	22,830,000	11,000,000	11,170,000	
1968-69	175,000,000	54,463,000	8,000		120,529,000
1969-70	100,000,000	40,746,000	598,000		58,656,000
1970-71	80,000,000	14,956,000	6,000		65,038,000

Miscellaneous transfers in 1970-71 amounted to $33,424,000 of which all but $6,000 was recovered from supplementary appropriations which included the items for which the original transfers were requested.

Members of the Public Accounts Committee have expressed concern that large sums are placed in the hands of the Executive for the supplementing of appropriations of the various departments. In its Thirteenth Report 1966-67 the Committee stated that additional amounts required by each department should be made the subject of a supplementary estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner. (See Appendix 1, item 25.)

Not only has the practice which has concerned the Public Accounts Committee been continued, but the purposes of the Contingencies Vote have been extended since 1968-69 to establish a reserve from the unused balance of the appropriation at each year-end from which payments may be made in respect of salary increases relating to previous years for persons employed in the Public Service. Transactions in this reserve account since inception may be summarized as follows:

	Transferred from Contingencies Vote	Payments of salary increases relating to previous years	Balance at March 31
1968-69	$ 120,529,000	$	$ 120,529,000
1969-70	58,656,000	114,853,000	64,332,000
1970-71	65,038,000	30,157,000	99,213,000

In May 1971 this matter was again considered by the Public Accounts Committee during its examination of our 1969 Report. In reply to a subsequent inquiry the President of the Treasury Board, in December 1971, informed the Chairman of the Public Accounts Committee that

> the use of the Contingencies Vote to finance retroactive salary increases was considered by the Treasury Board, and the Board was unable to perceive how this practice, sanctioned by Parliament, weakens parliamentary control over expenditures.
>
> Allotments for salary purposes from the Contingencies Vote do not reflect changes in the content or level of activity of the programs to which they are made: they merely provide for increased rates of pay arising out of collective agreements. Following an approach similar to that used for the non-salary allotments would require the inclusion in supplementary esti-

mates of items in identical terms for most departments and agencies and would result in an inordinate increase in the size of the supplementary estimates document without a corresponding increase in its informative character.

The Public Accounts ... record the amount that has been transferred from the Contingencies Vote to each departmental vote for salary purposes in this way providing a complete accounting.

It is, therefore, the view of the Treasury Board that the present arrangement whereby the Contingencies Vote is used to supplement each salary increase in a departmental vote is a satisfactory arrangement.

The amount transferred to each departmental vote is the amount required to supplement the paylist provisions of the vote, to cover salary increases chargeable to that year. The transfers do not include provision for retroactive salary increases paid during the year but relating to a previous year, which are not reflected in the expenditures of the department to which they relate but are charged to a reserve established from the unused portions of the Contingencies Vote in the past three years.

During the year the following instances were noted where the use of the Contingencies Vote was further extended with the result that the authority of Parliament, which heretofore was requested in advance of action by the Executive, was sought only at a later date:

1. The Treasury Board approved allotments from the Contingencies Vote of $240,000 for the extension of a wharf at Burgeo, Nfld., and $1,000,000 for the construction of an oil refinery terminal wharf estimated to cost $20 million at Come-by-Chance, Nfld., both projects subject to full recovery of cost over a period of twenty-five years. One of the submissions to the Treasury Board included the following explanation:

   Existing legislation (including departmental appropriations acts) do not provide sufficient authority to this department for entry into loan or loan type commitments. We therefore require an allotment from Treasury Board Contingencies Vote as authority for this commitment pending inclusion of an empowering item in the Supplementary Estimates.

   Authority was subsequently provided in Appropriation Act No. 1, 1971, *1970-71-72, c.25,* by Public Works Votes L28c and L29c, but Parliament was not informed of funds already made available in the Contingencies Vote or of the total commitment involved in these projects which amounted to $20,240,000.

   It seems doubtful that Parliament intended the Contingencies Vote to be used to initiate expenditure not within the ambit of existing votes, excepting in an emergency. The wording "to supplement other votes" suggests that it did not.

2. The Contingencies Vote was used to pay, direct to post-graduate students, fellowships in connection with transportation research because Transport Vote 60 authorized grants in aid of transportation research only to universities and other organizations. Supplementary Estimates Vote 60a subsequently amended the Vote text to read "Grants in aid of transportation research to universities, university students and such other organizations or individuals...". Here again the Contingencies Vote was used not to supplement a vote but instead to initiate expenditure that could not be made from the existing vote, thus extending the purposes of the Vote. (See also paragraph 58 of this Report.)

52. *Revised vote pattern.* In its First Report 1968-69, presented to the House on January 29, 1969, the Public Accounts Committee recommended the following

criteria to be used in determining the votes required under the revised form of the Estimates introduced in 1970-71:

1. In the revised Estimates, the proposed spending under a program is to be set forth under the three basic headings of
   (a) Administration, Operations and Maintenance (or operating costs);
   (b) Construction and Acquisition (or capital costs); and
   (c) Grants, Contributions and Subsidies.
2. Each department, agency or legal entity shall require one or more votes as the case may be.
3. In all cases where agencies or Crown corporations are incurring a deficit or related deficits which must be covered by an appropriation, these will be the subject of a separate vote.
4. The special circumstances surrounding any particular expenditure, e.g. Contingencies, Treasury Board Vote 5, be made the subject of a separate vote.
5. As capital investment today can well mean increased Administrative cost tomorrow, spending proposals involving more than $5 million in total for Construction and Acquisition within a departmental program shall always be the subject of a separate vote.
6. Grants, Contributions and Subsidies being of a special nature, therefore requiring a different type of consideration, will be the subject of a separate vote when the total within a departmental program exceeds $5 million.

The Committee directed the Auditor General to note the manner in which the criteria had been applied and to advise the House thereon in his next Report.

In last year's Report (paragraph 49) we noted that, in several instances, these criteria had not been followed in the 1970-71 Estimates. For example, there was no separate vote for the Agricultural Stabilization Board. Similarly, there was no separate vote for grants and contributions of the Department of Indian Affairs and Northern Development, amounting to $44,727,000, which were included in that Department's Vote 5, which provided a total of $165,515,000 for operating expenditures of the Department's Indian and Eskimo Affairs Program. As explained in paragraph 24 on page X of the Foreword to the 1970-71 Estimates, this had been done to allow the Department flexibility to provide the required assistance in the most effective manner throughout the year. The Estimates for 1971-72 indicate no change for these items.

The following comments are made with respect to other items in the Estimates for 1970-71:

1. We noted last year that, in the appropriations which provide authority to spend revenue, the estimate of revenue still appears only in the Estimates details rather than in the Appropriation Act. The 1971-72 Estimates indicate no change. Thus, no recognition has been given to the view expressed in each of our Reports since 1966 (paragraph 50 in 1970) that to ensure parliamentary control over expenditure, where authority is provided for the spending of revenue, three figures—estimated gross expenditure, estimated revenue, and net amount appropriated— should appear in the appropriation itself and the amount of revenue used to supplement the net amount appropriated should be limited to the estimated revenue shown in the appropriation. (See also paragraph 53 of this Report.)

2. We mentioned last year that parliamentary control had been further weakened by showing the amount of some votes as a net amount after deducting, in the "Program by Activities", an amount representing the anticipated recovery of expenditure from the vote which had not been provided for in the vote. For example, Finance Vote 1 provides a net amount for the Financial and Economic Policies Program after deducting from the estimated expenditures an amount of $687,000. There is no explanation of this item and nowhere in the Estimates can Members of the House find the information that the Department of Finance is recovering the cost of administrative services provided to the Treasury Board. It has long been accepted that expenditure falling within the ambit of a vote, but not provided for in the vote, which is later recovered may be credited to the vote. There must, however, be no supplementation of the vote and therefore such credits should be restricted to recoveries of clearly identifiable expenditures only. This is not the case in the example referred to and in our opinion such recoveries of costs should be regarded as revenue and credited to the vote only with the appropriate authority and with the amount controlled as is suggested in 1. Recoveries of costs should also be credited to revenue in other cases where the "Program by Activities" of a department shows a deduction for, but does not show the nature of, receipts and revenue credited to the vote and which are not clearly identified and adequately described in the vote.

3. Last year we reiterated our view that words which represent an amendment to legislation should be included in the text of the vote which appears in the Appropriation Act rather than in the text of a "sub-vote" which appears only in the Details of Services of the Estimates. We noted that this questionable practice was continued in the 1970-71 Estimates in Indian Affairs and Northern Development Vote 35 and pointed out deficiencies in the vote wording. On December 9, 1971 the President of the Treasury Board advised the Chairman of the Public Accounts Committee that there is no legal bar to words in an Appropriation Act that refer to "the details in the Estimates" but that

> ... to ensure greater clarity in presentation of Estimates to Parliament, it has been decided [that] the main vote titles in 1972-73 Estimates ... will be expanded to include those legislative authorities previously detailed in the Estimates or in the grant words included in the Estimates.

4. In the following cases the amounts formed part of the appropriation but in each case the capital expenditure during the year exceeded the amounts included in the Estimates for capital expenditure:

Vote	Estimated expenditure	Actual expenditure	Excess
Agriculture Vote 5	$ 2,455,000		
Agriculture Vote 5a	2,959,000		
	5,414,000	$ 5,422,000	$ 8,000
National Defence Vote 15 (Defence Research Program)	4,999,000	5,672,000	673,000
National Health and Welfare Vote 20	3,491,000	6,291,000	2,800,000
	$ 13,904,000	$ 17,385,000	$ 3,481,000

Since the initially estimated expenditure in each vote was below $5 million, separate votes were not required, thereby providing a degree of flexibility by permitting funds provided for operating purposes to be used for capital purposes, that would not have been the case had there been separate votes for capital expenditure. As a consequence, Parliament did not have the opportunity to control capital expenditure of $3,481,000.

5. In prior years the deletion of debts due to the Crown in excess of $5,000 ($1,000 prior to 1969-70) was the subject of a separate appropriation under the Treasury Board. Effective in 1970-71 amounts to be deleted are being included in the departmental section of the first supplementary estimates available.

53. *Supplementing parliamentary appropriations.* In previous Reports (paragraph 50 in 1970) we have drawn attention to the weakening of parliamentary control over expenditure when appropriations containing provision for the spending of revenue received during the year may be supplemented in the event that the revenue received is in excess of the revenue estimated. We cited examples of appropriations which had been supplemented in this manner and reiterated our recommendation that the use of revenue be limited to the estimated amount.

No change was made in 1970-71 to those appropriations which authorized the spending of revenue and the wording in the Estimates for 1971-72 also indicates no change.

In 1970-71 there were 24 appropriations of 15 departments which authorized the spending of revenue. In 13 appropriations the revenue received exceeded the estimated revenue, the aggregate of the excesses being $28,306,000. In nine of these appropriations, the excess of actual revenue over estimated revenue exceeded $100,000 as follows:

	Estimated revenue	Actual revenue	Excess of actual revenue over estimated revenue: Used	Unused
Communications and Post Office Vote 1	$ 7,252,000	$ 8,381,000	$ —	$ 1,129,000
National Defence Vote 5	96,595,000	112,623,000	9,515,000	6,513,000
National Health and Welfare Vote 20	6,107,000	9,369,000	960,000	2,302,000
Secretary of State Vote 100—Public Service Commission	530,000	685,000	—	155,000
Solicitor General Vote 20—Royal Canadian Mounted Police	40,588,000	41,781,000	—	1,193,000
Transport				
Vote 1	200,000	324,000	—	124,000
Vote 35	42,062,000	43,200,000	—	1,138,000
Treasury Board Vote 15—National Research Council of Canada	8,212,000	9,643,000	553,000	878,000
Veterans Affairs Vote 40	26,602,000	30,244,000	—	3,642,000
	$ 228,148,000	$ 256,250,000	$ 11,028,000	$ 17,074,000

Treasury Board Circular No. 1969-94 of July 14, 1969 directs that where authority has been provided in a particular vote to spend revenue and where the receipts actually collected amount to more than 125% of the amount forecast in the Estimates, the excess is to be credited to a separate allotment which may be spent only with Treasury Board approval. Thus the Treasury Board has retained for itself control over that portion of the excess which exceeds 25% of the revenue originally estimated.

Under this directive the entire $28,306,000 excess of actual revenue over estimated revenue was available for spending at the departments' discretion with the

exception of the following amounts aggregating $1,832,000 which could be spent only with Treasury Board approval:

National Health and Welfare Vote 20	$ 1,735,000
Secretary of State Vote 100	23,000
Transport Vote 1	74,000
	$ 1,832,000

We reiterate our view that to ensure parliamentary control over expenditure, where authority is provided for the spending of revenue, three figures—estimated gross expenditure, estimated revenue and net amount appropriated—should appear in the appropriation itself and the amount of revenue used to supplement the net amount appropriated should be limited to the estimated revenue shown in the appropriation.

54. *Unpaid accounts carried forward to new fiscal year.* A summary of accounts properly chargeable to 1970-71 which were not paid in that year appears on pages 11.23 to 11.25 of Volume I of the Public Accounts. The amounts shown in the summary are divided into six categories, the totals of which compare with the previous year's totals as follows:

	March 31, 1971	March 31, 1970
Invoices received on or before April 30:		
Interdepartmental—		
Insufficient funds	$ —	$ 3,844,000
Other reasons	742,000	1,202,000
	742,000	*5,046,000*
Other—		
Insufficient funds	12,235,000	13,564,000
Other reasons	13,232,000	13,326,000
	25,467,000	*26,890,000*
Invoices received after April 30:		
Interdepartmental	141,000	1,848,000
Other	18,776,000	15,850,000
	18,917,000	*17,698,000*
	$ 45,126,000	$ 49,634,000

No explanation is given in the summary for the non-payment in the year of accounts totalling $13,974,000 which were on hand at April 30 and for which funds were available.

Not included in the summary is an amount of $2,700,000 which could not be charged to Manpower and Immigration Vote 10 because sufficient funds were not available in the Vote. This amount, together with $1,800,000 which was charged to the Vote, represents the portion of the training allowances paid by the Department of Manpower and Immigration in April 1971 which was applicable to 1970-71. (See also paragraph 93 of this Report.)

Of the accounts received on or before April 30 and categorized as unpaid due to "insufficient funds", accounts totalling $15,000 could have been paid because sufficient funds were available in the votes.

Of the accounts totalling $18,917,000 received after April 30, $9,906,000 could not have been paid in any event as sufficient funds were not available in the votes.

The relationship of these unpaid accounts, including the $2,700,000 which was not reported in the Public Accounts ($1,166,000 in 1969-70), to the availability of funds may be seen from the following table which also shows the comparable amounts for the previous year:

	March 31, 1971	March 31, 1970
Failure to pay although funds were available	$ 13,989,000	$ 13,680,000
Failure to get accounts in on time	9,011,000	9,411,000
Failure to seek supplementary appropriations	14,920,000	19,422,000
Failure to get accounts in on time and to seek supplementary appropriations	9,906,000	8,287,000
	$ 47,826,000	$ 50,800,000

It will be noted that the unpaid accounts decreased by $2,974,000 from those unpaid at the end of the previous year. Therefore the expenditure applicable to 1970-71 was actually $2,974,000 less than was recorded. However, the 1970-71 appropriations were intended to cover accounts coming in course of payment during the year and technically 15 appropriations were overspent by $24,826,000.

In previous Reports (paragraph 51 in 1970) we have referred to the provisions of section 25 of the Financial Administration Act which imposes on deputy heads or other persons charged with the administration of a service the responsibility for operating commitment control records for each parliamentary appropriation in such a way that they are in a position at any time to determine the balance remaining in an appropriation that is available for further commitment. We pointed out that Parliament has modified the requirements of section 25 by including in the annual appropriations of certain departments authority to enter into commitments that will come in course of payment only in future years. Should these commitments come due for payment earlier than anticipated, there may not be sufficient funds in the vote to enable payment to be made. Similarly, in the case of annual appropriations providing for claims under programs where the amount has been underestimated, there is no alternative but to withhold payment until a further parliamentary appropriation is available. Payments withheld in this manner are usually charged against the corresponding appropriation in the new year, which often results in that appropriation being insufficient to take care of all the accounts coming in course of payment for which it had originally been provided.

We reiterate our view that the present procedures whereby no appropriation is ever reported as having been overexpended, through the technique of withholding

payment of amounts owing by the Crown until a further appropriation becomes available, are misleading and should be reviewed. Consideration should also be given to the procedures followed in presenting supplementary estimates to Parliament. Appropriation Act No. 1, 1971, *1970-71-72, c.25,* covering the 1970-71 final Supplementary Estimates, was assented to on March 30, 1971. A study should be made of the reasons why much of the $24 million of accounts unpaid due to insufficient funds at March 31, 1971 was not provided for in these Supplementary Estimates.

A study should also be made of the reasons for the discrepancies between accounts payable by departments and the corresponding accounts receivable of departments providing them with services. Interdepartmental accounts payable at the year-end have been reported as $742,000 owing in respect of invoices received on or before April 30 and $141,000 owing in respect of invoices received after April 30. These amounts are substantially less than the receivables of over $1 million recorded by departments as due from other departments at March 31, 1971 and receivables of over $5 million which form part of working capital advances of creditor departments at that date, all of which are actually undistributed expenses of government departments and agencies. (See also paragraphs 240 and 252 of this Report.)

55. *Loans and advances representing grants.* Reference has been made in previous Reports (paragraphs 54 and 210 in 1970) to certain loans to Crown corporations and others where payments of interest and instalments on principal were dependent on further appropriations of Parliament.

The Public Accounts Committee has considered the practice from time to time since 1963 and holds the view that outlays on properties, such as those held by the National Capital Commission in the Greenbelt, are expenditures of the Crown rather than income-producing investments (see Appendix 1, item 5). In its Seventh Report 1966-67 the Public Accounts Committee stated that it was disturbed to learn that the practice had been further extended in 1965 when the House was asked to approve loans to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure. The Committee reiterated its opinion that "expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada" (see Appendix 1, item 17). On May 6, 1971 the Public Accounts Committee discussed this question with the Auditor General and the Deputy Minister of Finance but has not made any further recommendation to the House.

The practice of recording these expenditures as loans instead of grants has the effect of understating the deficit for the year as recorded in the Public Accounts. To the extent that appropriations are provided in later years for repayment of the loans, the surplus will decrease or the deficit increase in those years. Similar practices affecting the expenditure of two departments are referred to in paragraphs 57 and 195 of this Report.

The following additional loans of this type were made during 1970-71:

Canadian Broadcasting Corporation	$ 5,300,000
National Capital Commission:	
Greenbelt	1,000,000
Other than Greenbelt	2,000,000
Government of the Northwest Territories	10,207,000
Government of the Yukon Territory	4,551,000
	$ 23,058,000

Had the above amounts been recorded as grants in accordance with the overall policy with respect to these matters as is outlined in paragraph 239 of this Report, the deficit for the year would have been $23,058,000 greater.

Repayments during the year on loans of this type made in previous years were as follows:

Canadian Broadcasting Corporation	$ 6,300,000
National Capital Commission:	
Greenbelt	366,000
Other than Greenbelt	8,282,000
Northern Canada Power Commission	405,000
Government of the Northwest Territories	1,006,000
Government of the Yukon Territory	773,000
	$ 17,132,000

These repayments, with the exception of $1,083,000 derived from the sale of property by the National Capital Commission, were provided for in the 1970-71 appropriations of Parliament. Had the loans been recorded as grants when originally made, these appropriations to enable repayment of principal would not have been required and the deficit for 1970-71 would therefore have been $16,049,000 less.

Certain of these loans call for payment of interest at varying rates and the following interest income was recorded during 1970-71 with respect to them:

Canadian Broadcasting Corporation	$ 7,435,000
National Capital Commission	3,369,000
Government of the Northwest Territories	1,286,000
Government of the Yukon Territory	1,094,000
	$ 13,184,000

Of this total, $12,177,000 was provided from 1970-71 appropriations of Parliament, but this provision had no effect on the recorded deficit for the year as it was offset by the recording of an equivalent amount of income. Nevertheless, both the expenditure and revenue of the year are greater by this amount than would have been the case had the funds advanced in previous years been recorded as grants rather than loans requiring payment of interest. Of the interest received from the

National Capital Commission, $1,007,000 was derived from property rentals, interest from bank deposits and other income.

In August 1969 the National Capital Commission received a directive from the Treasury Board with respect to loans for the purchase of property other than in the Greenbelt under which, starting in 1970-71, loans would be provided only to acquire, improve and service properties which are to be sold to other users, thereby enabling the Commission to repay the loans. The Commission interprets this directive as referring to sales to government departments as well as to outsiders. Inasmuch as, to the best of our knowledge, this land is to be used for government purposes, we are of the opinion that the additional loans of $2,000,000 during the year for the purchase of property, other than for the Greenbelt or for resale, should have been charged to expenditure.

56. *Capital assets charged to departmental working capital accounts.* In previous Reports (paragraph 52 in 1970) we have noted that working capital advance accounts were being used to acquire capital assets, thereby removing expenditure on such assets from parliamentary control. This practice was continued in 1970-71.

The cost of capital assets charged to departmental operating accounts in this manner is as follows:

	1970–71	Cumulative to March 31, 1971
Canadian Government Printing Bureau Revolving Fund	$ 368,000	$ 2,799,000
Canadian Government Supply Service Revolving Fund	—	4,000
Central Microfilm Unit Revolving Fund	6,000	6,000
Computer Services Bureau Revolving Fund	35,000	269,000
National Film Board Operating Account	18,000	255,000
Passport Office Revolving Fund	15,000	202,000
Racetrack Supervision Revolving Fund	25,000	25,000
	$ 467,000	$ 3,560,000

Treasury Board regulations covering the establishment and operation of revolving funds and working capital advances, which became effective on April 1, 1970, provide for the financing of capital assets either from the accumulated provision for replacement funds, derived from annual charges to operations designed to amortize existing capital assets over their useful life, or from a separate repayable loan vote to be included in the Estimates.

These regulations are designed to restore parliamentary control over the expansion of capital facilities used in operations financed by means of a revolving fund and limit the resources available for the purchase of replacement facilities to

those accumulated by the amortization of the cost of existing facilities. However, should replacement of any facilities not be required, replacement funds available with respect to them will be available for the acquisition of other assets which might be used for a new activity without reference to Parliament.

Capital assets cannot be categorized as current assets and as working capital is the excess of current assets over current liabilities, it is a departure from recognized accounting principles when capital assets are included in working capital balances.

57. *Capital assets financed by loan appropriations.* In the immediately preceding audit comment (paragraph 56) it has been pointed out that Treasury Board regulations which became effective on April 1, 1970 provide for the financing of capital assets either from the accumulated provision for replacement funds derived from annual charges to operations which are designed to amortize existing capital assets over their useful life, or from a separate repayable loan vote to be included in the Estimates. These regulations were intended to restore parliamentary control over the expansion of capital facilities.

Parliament does retain control over expansion when it must approve of a loan appropriation with which this expansion is to be carried out. However, the financing of capital assets in this way violates the long-standing accounting policy under which the costs of capital works are charged to expenditure at the time of acquisition or construction. This accounting policy is set out in the introductory pages of Volume I of the Public Accounts each year and the pertinent portion is reproduced in paragraph 239 of this Report.

Expenditures on capital works which have been made from loan appropriations are as follows:

	1970–71	Cumulative to March 31, 1971
Department of Transport:		
Airport capital loans	$ 41,205,000	$ 46,331,000
Construction and acquisition of ferry vessels and related equipment	8,200,000	13,921,000
Vancouver International Airport—Construction of bridges	1,225,000	4,204,000
Department of Supply and Services:		
Computer Services Bureau	154,000	154,000
	$ 50,784,000	$ 64,610,000

Obviously, loans are not normally made to oneself and loans by Canada to Canada cannot properly be included among the assets of Canada on the Statement

of Assets and Liabilities. If expenditures on capital works are to be included among the assets of Canada, they must surely be described properly as capital assets. Furthermore, the value of all other capital works of Canada would have to be included on the Statement, all of which would require a substantial change in the underlying accounting policy.

58. *Grants paid prior to parliamentary approval.* No accounting is made to the House of Commons of the ultimate application of moneys paid as grants in aid. For this reason, the prior sanction of Parliament has always been a requisite for the making of such payments. This is the opinion of the Public Accounts Committee of the United Kingdom, as is illustrated by the case of a British vote which included a provision for the making of a grant in aid as well as other outlays but did not fix a precise amount for the grant in aid. The Committee took exception:

> We are strongly of opinion that in all future cases where Parliament is asked to vote money as a grant in aid the exact amount of the grant should be specified in the Estimates so that Parliament may be aware of the precise sum which it is proposed to exempt from the ordinary conditions which govern accounting for voted money.

Prior to 1967-68, the Treasury Board Secretariat concurred with this view as is evidenced by its refusal in February 1961 to use the Contingencies Vote for the payment of grants. In that year a department requested the Treasury Board to provide, from the Contingencies Vote, additional funds for the payment of grants. In refusing the request, the Treasury Board stated:

> The Board did not consider it proper to increase without reference to Parliament the amounts of grants specifically covered by the terms of the Appropriation Act. This attitude is in accordance with long-standing policy whereby such grants are specifically mentioned in the Appropriation Act and are not exceeded. In this connection, it might be mentioned that the 1960 Report of the Public Accounts Committee expressed the opinion that no grants or contributions in cash or in kind should be made without the express sanction of Parliament.

That the Treasury Board still considers this to be the proper procedure is evidenced by the fact that, as recently as October 1971, in granting authority for a department to include an item for a grant in supplementary estimates, it did so

> on the understanding that the grant can be made only after it has been authorized by Parliament through the Supplementary Estimates.

Notwithstanding this, the Treasury Board has deviated from this long-standing policy by permitting payment of grants in aid without the prior approval of Parliament since 1967-68. Last year (paragraph 53) we reported that ten such grants totalling $230,250 had been paid from Treasury Board Vote 5, Contingencies.

During the year the Treasury Board continued to follow this practice and six grants totalling $538,000 were made without the prior approval of Parliament. With the exception of $15,000 paid from Manpower and Immigration Vote 20, these grants were paid from Treasury Board Vote 5, Contingencies, and parliamentary approval of the payments was later sought either in Supplementary Estimates (A) which were covered by Appropriation Act No. 4, 1970, *1970-71-72, c. 4,* assented to on December

18, 1970, or in Supplementary Estimates (C) which were covered by Appropriation Act No. 1, 1971, *1970-71-72, c. 25,* assented to on March 30, 1971. These Appropriation Acts authorized payment of the grants and it was stated in the supplementary information given in the Estimates that funds had been allotted or allocated from the Contingencies Vote. We understand that this wording was intended to inform the House of Commons that the grant had already been paid and that the authority was being sought *ex post facto.* We have pointed out to the Treasury Board Secretariat that the words "allotted" or "allocated" do not normally mean "paid" and that in our opinion the Estimates item should have stated clearly to the House that the grant had already been paid from the Contingencies Vote. The Secretariat has advised us that they will reconsider this wording.

The following is a list of the 1970-71 grants which received *ex post facto* approval of Parliament:

Date of payment	Beneficiary and appropriation charged	Amount
June to December 1970	Research grants to individual fellowship recipients (Transport Vote 60a). (See also paragraph 51 of this Report.)	$ 75,000
September 8 and November 7, 1970	Frontier College of Canada (Manpower and Immigration Vote 20a)	20,000
November 17, 1970	Canada Committee for promoting Canada Week 1970 (Secretary of State Vote 35a)	20,000
November 19 to December 4, 1970	Grants to ethnic cultural groups for citizenship development (Secretary of State Vote 35a)	24,000
December 22, 1970	International Commission of Jurists (External Affairs Vote 10c)	20,000
January 27, 1971	Fraser River Harbour Commission (Transport Vote 5c)	379,000
		$ 538,000

59. *Inadequate charges for services provided.* Government policy based on a recommendation of the Royal Commission on Government Organization is that

> it should be departmental policy wherever economically and administratively feasible to charge for all goods supplied or services rendered to the public, including those now supplied free, unless there are provisions for specific exemption.

Since its adoption several years ago, many of the charges for services provided to the public have been adjusted in accordance with this policy.

Last year (paragraph 55) we noted that increased charges had been introduced with respect to second class mail and steamship inspections. The Government had planned to introduce a number of additional increases and a number of new charges for such services for 1970-71, but on February 18, 1970 the Prime Minister advised the House of Commons that it intended to forgo them because of inflationary pressures.

In December 1970 the Government announced the ending of voluntary price restraints, whereupon the Treasury Board advised departments that it is prepared to consider submissions requesting authority to initiate increases or to initiate new fees in cases where the reasons are particularly good. Departments and agencies were asked not to initiate new fees or increases in fees without specific approval.

With effect from January 1, 1971, the Department of Agriculture is authorized to charge a fee to users of the Canadian Farm Management Data System (CANFARM), which went into operation in January 1970, and since the year-end the Department has been authorized to charge fees for the inspection of ships for insects or pests. In May 1971 the Treasury Board advised the Department of National Health and Welfare that it was prepared to consider proposals for changes in fees for prosthetic and orthotic services.

Services for which fees charged during the past two years were insufficient to cover costs included the following:

	1970–71			Deficit
	Costs	Revenue	Deficit	1969–70
Post Office services (see paragraph 158 of this Report)	$ 525,523,000	$ 420,987,000	$ 104,536,000	$ 58,893,000
Canadian Farm Management Data System (CANFARM)	1,951,000	—	1,951,000	not available
Steamship inspections	2,207,000	419,000	1,788,000	1,790,000
Livestock—Record of Performance	2,060,000	306,000	1,754,000	1,991,000
Weights and measures inspections	2,155,000	1,067,000	1,088,000	1,097,000
Seed testing and inspections, and field crop inspections	1,063,000	388,000	675,000	538,000
Electricity and gas meter inspections	1,846,000	1,180,000	666,000	636,000
Inspections of grain	4,528,000	3,865,000	663,000	1,213,000
Meat inspection services—overtime (see paragraph 66 of this Report)	1,858,000	1,315,000	543,000	400,000
Prosthetic services	1,975,000	1,448,000	527,000	541,000
Weighing of grain	2,447,000	1,937,000	510,000	926,000
Cargo cranes—Vancouver Harbour (see paragraph 133 of this Report)	163,000	56,000	107,000	76,000
Treatment of sick mariners	801,000	714,000	87,000	295,000
Supervision of pension plans	83,000	14,000	69,000	52,000

The costs shown do not in every case include all costs of providing the services.

60. *Federal land and other assets occupied and used by the Province of Quebec in the Montreal-Longueuil area.* In previous Reports (paragraph 57 in 1970) we have referred to financial and legal problems encountered by Canada in respect of various federal lands and other assets occupied by the Province of Quebec in the Montreal-Longueuil area. We noted that an inventory of land used by Canada in the area had been substantially completed and that, after meetings with provincial

and municipal officials, the National Harbours Board and The St. Lawrence Seaway Authority, two of the federal agencies most directly concerned, had reported to the Federal-Provincial Relations Secretariat of the Privy Council Office. We also noted that the Department of National Defence continued to negotiate with respect to certain properties as the problems relating thereto were not assumed by the Federal-Provincial Relations Secretariat.

There have been no further developments with respect to the outstanding problems of the National Harbours Board and The St. Lawrence Seaway Authority which are now in the hands of the Federal-Provincial Relations Secretariat of the Privy Council Office. Developments with respect to the properties of the Department of National Defence are dealt with in paragraph 114 of this Report.

61. *Interdepartmental settlements.* In paragraph 58 of our 1970 Report we mentioned that at one time there was a specific accounting instruction requiring settlements between government departments to be made by journal voucher, instead of by cheque. It was never completely effective because of a general dislike of journal vouchers by accounting staff. We pointed out that with the increase in interdepartmental settlements under program budgeting, the journal voucher method of effecting these settlements has been used even less than before. We noted that the Treasury Board Secretariat in 1968 had been giving consideration to the development of a special procedure for such settlements but that no changes had been effected and Receiver General cheques were still being used for this purpose. We suggested that consideration should be given to the use of a special non-negotiable document for effecting interdepartmental settlements.

As was the case last year, the Canadian International Development Agency refused to use journal vouchers to settle claims of other departments that were chargeable to the International Assistance Account and journal vouchers received from the creditor departments prior to the year-end were returned. Cheques in payment of the accounts were then drawn after the year-end cut-off date of March 31 for the International Assistance Account and were recorded as 1971-72 transactions. However, as the cut-off date for the recording of credits to the 1970-71 expenditure and revenue accounts was not reached until June 15, 1971, four creditor departments recorded these cheques totalling $245,000 as 1970-71 transactions. The effect of this was that the balance at the credit of the International Assistance Account as shown in the schedule to the Statement of Assets and Liabilities of Canada at March 31, 1971 included $245,000 which had been used to reduce the 1970-71 expenditures of the four departments and which, therefore, was also included in the item "Other current assets" on the Statement of Assets and Liabilities. While there is no suggestion of any improper intent in this instance, such bookkeeping violates accepted accounting principles and would not be tolerated in the private sector.

The use of cheques to effect interdepartmental settlements was considered by the Public Accounts Committee on October 21 and November 16, 1971. The Committee was informed by the Deputy Minister of Services on November 16 that:

> I agree with the Auditor General's comments that cheques should not be used to settle interdepartmental payments and I would welcome a recommendation from your Committee that Treasury Board and the Department of Supply and Services study this matter.

The Committee has not yet made such a recommendation but we understand that officers of the Treasury Board and the Department of Supply and Services have begun a study of this matter.

62. *Revenue improperly classified.* On page 3.7 of Volume I of the Public Accounts it is stated that revenue which is classified as "Return on investments" is income derived from loans and advances made by the Government and from investments by the Government in productive or earning assets.

Treasury Board regulations issued on January 8, 1970, covering the operation of revolving funds and working capital advances, state that:

> Any surplus arising from the operations of a fiscal year is to be transferred to "Return on investments".

Last year (paragraph 59) we expressed the opinion that the surpluses in certain revolving funds which were classified as "Return on investments" should have been classified as "Other non-tax revenue". We noted that in the case of the Passport Office Revolving Fund the character of the revenue from passport fees, previously classified as "Other non-tax revenue", did not seem in any way to be changed when the Revolving Fund was set up to permit the expenses incurred in issuing passports to be paid from the fees charged rather than from parliamentary appropriations. We also noted that the Canadian Government Supply Service Revolving Fund showed a surplus only because operating costs estimated at $4,000,000 were not charged to it but were absorbed by appropriations, and that the Agriculture Revolving Fund actually operated at a loss but accumulated a cash surplus because certain operating costs were charged to appropriations of the Department of Agriculture. There has been no change in the practice.

Fees charged for passports prior to 1969-70 were recorded as "Other non-tax revenue". There is no relationship between the fees charged and the cost of issuing the passports nor is there any rational relationship between a "return on investment" of $952,000 and the book value of the "investment" of $366,000 in inventories and capital assets employed in the operation. There was in fact no amount advanced to the Fund at March 31, 1971, as deposits for passports not yet issued, together with the unpaid accounts of the Fund at that date, exceeded the book value of inventories and capital assets.

As is shown in paragraph 328 of this Report, the Agriculture Revolving Fund operated at a loss of $645,000 but accumulated a cash surplus of $34,000 because certain costs of the Revolving Fund operation were charged to appropriations of the Department of Agriculture.

There was no transfer to revenue from the Canadian Government Supply Service Revolving Fund.

We remain of the opinion that these surpluses should be classified as "Other non-tax revenue" and the Treasury Board regulations covering the operation of revolving funds and working capital advances which require these amounts to be transferred to "Return on investments" should be amended accordingly.

63. *Statement of Expenditure and Revenue.* The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1971 shows expenditure of $13,182 million and revenue of $12,803 million, resulting in a budgetary deficit of $379 million.

As is pointed out in paragraph 53 of this Report, 15 departments have authority to spend revenue received with respect to certain appropriations. The accounting procedure is to credit the revenue directly to the appropriation as it is received and, for statement purposes, to offset it against expenditure from the appropriation and record the net expenditure.

During the year non-tax revenues totalling $289 million were credited to appropriations and, under authority of the Post Office Act, *R.S., c. P-14*, remuneration of postmasters and staffs at certain classes of post offices and other costs, totalling $55 million, were paid from gross postal revenue. Thus the totals shown on the Statement of Expenditure and Revenue for the year ended March 31, 1971 are net figures only, and $344 million must be added to each to obtain the actual expenditure and revenue figures for the year which are $13,526 million and $13,147 million respectively.

64. *Wheat inventory reduction payments.* The aim of the wheat inventory reduction program, which was administered by the Department of Agriculture, was to take out of production up to 22 million acres of land in order to reduce the stock of surplus wheat. Under the program, farmers were eligible for a payment of $6 for each acre of cultivated land taken out of wheat in 1970 and summer-fallowed or planted to perennial forage. A further $4 per acre was payable with respect to land seeded to forage in 1970 and still in forage on July 15, 1971.

Payments in 1970-71 to 100,000 farmers with respect to 9.6 million acres amounted to $57.6 million. This was charged to the reserve of $100 million established in the previous year by Agriculture Vote 17b, Appropriation Act No. 1, 1970, *1969-70, c.24*, leaving a balance of $42.4 million in the reserve at March 31, 1971. An additional $5.5 million has been disbursed since the year-end.

Under the program, interim payments of $3 per acre were made on receipt of applications and the balance of $3 per acre was paid following verification of the applications by reference to field inspection reports and aerial photographs. This method of payment resulted in some payments being in excess of the amount eventually determined as owing to the farmer. The Department has established that some 4,000 farmers have been overpaid approximately $540,000. Of this, $177,000 has been recovered and attempts are being made to recover the remainder.

In the course of our examination a number of inconsistencies and weaknesses in the administration of this program became apparent. These may be summarized as follows:

1. Requisitions for cheques totalling some $4,000,000 were certified for payment by an officer for whom the Administration had failed to obtain ministerial authority as required by section 26 of the Financial Administration Act.
2. There were frequent changes in instructions to the staff regarding the acreage figures to be used which resulted in inconsistent treatment of similar cases. Because of this, the Department reviewed all applications to make corrections.
3. A majority of some 2,000 applications received after the deadline date of July 15, 1970 were accepted although a condition of acceptance was that the delay must be due to circumstances beyond the control of the applicant. On October 6, 1970 the regulations were amended to permit acceptance of applications after the original deadline.
4. A substantial number of aerial photographs and interpretation cards were not considered when the eligible acreage calculations were being verified.
5. Many farmers received both wheat inventory reduction payments and awards under the Prairie Farm Assistance Act with respect to the same land. In a number of cases the farmer had shown the land as summer-fallow on his wheat acreage reduction application and as seeded acreage on his Prairie Farm Assistance Act application. Both programs are under the same administration. We are informed by the Department that this is not inconsistent with the legislation and regulations.
6. In most cases the farmers concerned were not informed of overpayments until September 1971 when letters were sent out requesting repayment. These letters were prepared from files and in the absence of controlling accounts there is no assurance that all overpayments are being followed up.

The cost of administration, excluding the salaries of the full-time personnel of the Prairie Farm Assistance Act Administration at Regina who administer the program, was charged to Agriculture Vote 10 in the amount of $1,912,000.

65. *Overpayment of assistance to tree-fruit and grape growers.* On October 15, 1965 Canada and British Columbia executed an agreement to share equally in providing financial assistance to certain tree-fruit and grape growers in British Columbia who suffered crop losses due to frost in 1964-65. The agreement provided for payments to replace trees or vines and to supplement the income of growers whose crop returns in 1965 were less than 75% of what they could have expected if there had not been a frost, based on the average of the grower's returns from fruit and grapes in the immediately preceding ten years, or some shorter period, as appropriate. Payments were not to exceed $400 per acre or $4,000 per grower.

The program was administered by the Province which received $2,451,000 between January 1966 and April 1968 on progress claims submitted to the Department of Agriculture.

In December 1968, the Audit Services Bureau of the Department of Supply and Services informed the Department that it was having difficulty in auditing the provincial claims because the Province had claimed for a further form of compensation covering damage suffered by growers with young or developing orchards for which there did not seem to be adequate authority. The Department replied that it was reasonable to adjust the ten-year average income to allow for the potential increase in production of young and developing orchards in the year of loss but that no grower should be paid more than the difference between his 1965 income and 75% of his adjusted ten-year average income.

After allowing the Province time to provide additional information to support its claims, the Audit Services Bureau reported in August 1970 that of the $2,451,000 paid to the Province, $289,000 should be disallowed. Of this amount, $281,000 pertained to compensation paid to growers of developing orchards partly in the form of acreage payments rather than on the basis of loss of income as required by the agreement.

The Province has questioned the manner in which the amount disallowed was determined and has suggested that if there were overpayments these should be recovered from the growers concerned and not from British Columbia. In his reply on August 25, 1971, the Minister of Agriculture has made a direct claim on the Province for recovery of $289,000 as the Federal Government's share of the overpayments.

66. *Fees for meat inspection services.* In last year's Report (paragraph 60) attention was drawn to the fact that regulations made pursuant to the Meat Inspection Act, *R.S., c. M-7,* were amended on January 14, 1970 to require the Department of Agriculture to provide free inspection services at meat packing plants on the basis of a 37 1/2 hour work week. However, because of the Government policy on price restraint measures to control inflation, the Department continued to provide free services on a 40 hour week basis although it lacked authority to do so. The cost to the Department of providing free services for the additional 2 1/2 hours per week had been estimated at $400,000 for a full year.

On January 12, 1971 the regulations were amended to revert to a 40 hour week basis for free services and on March 16, 1971 the Governor in Council granted a remission of the increase in the fee revenue which, although legally collectable between January 14, 1970 and January 12, 1971, had not been collected. The amount of the remission has been estimated at $300,000.

Subsequently there have been pay increases for employees engaged in the inspection services but, in line with the Government policy on price restraint, these

have not been reflected in increased charges to the packers when overtime in excess of 40 hours per week is required to be worked for their convenience. It is estimated by the Department that the annual cost of absorbing these increases as they affect the cost of overtime worked is $243,000.

Charges to packers with respect to overtime work during the year amounted to $1,315,000 which is an estimated $543,000 less than the cost of providing service beyond the normal 37 1/2 hour work week. The latter amount includes $300,000 as the estimated cost of overtime work between 37 1/2 and 40 hours per week which is not required to be recovered under the regulations.

67. *Inadequate internal control and accounting procedures.* Effective internal control within an organization, a prerequisite of operational efficiency, requires clearly defined authorities and appropriately segregated responsibilities, safeguards for the organization's assets, and reliable and accurate accounting records. Our examination of the Canada Council's records for the year ended March 31, 1971 disclosed a number of weaknesses in internal control and inadequate accounting and financial procedures which, in most cases, had existed in previous years. These have again been drawn to the attention of the management of the Council with recommendations as to how the internal control and accounting procedures could be improved. Examples are:

ACCOUNTS RECEIVABLE. These arise from payments of awards and grants to persons who subsequently become ineligible under Council standards:

1. There are no procedures to ensure that all recoverable amounts are promptly recorded in the accounting records.
2. Application forms do not state that awards and grants rescinded by the Council are required to be repaid by the award holders.
3. The charging of interest on unpaid balances is prohibited by the Council, greatly reducing the incentive to repay.
4. Responsibility for collection action has not been assigned and as a result collection action has not been satisfactory.

DOCUMENTATION AND CHEQUE ISSUE CONTROL. Supporting documentation is not marked at the time of cheque issue to indicate that payment has been made. This is essential to prevent duplicate payments. The cheque mailing operation is not separated from the preparation of the cheques.

TRAVEL. Numerous instances were noted where travel was not approved by the employee's division head.

In some instances accommodation, meals and entertainment expenses are charged directly to the Council by employees in travel status and subsequently paid for by the Council without further approval. Where such disbursements are made they should be included in travel claims and approved by an authorized officer.

JOURNAL VOUCHERS. Journal vouchers for other than investment transactions are not approved by management.

In October 1971 we were advised by management that remedial action is to be taken.

68. *Commitment by the Canada Council for income tax relief to doctoral fellowship holders.* A Canada Council memorandum to doctoral fellowship applicants and a booklet published in August 1970 entitled "Aid to the Social Sciences and Humanities", both relating to the 1971-72 year, state:

> in the event that doctoral fellowships become subject to income tax, the Council will make an adjustment to offset, in a general way, the impact of such taxation.

This statement is repeated in the memorandum to doctoral fellowship applicants for the 1972-73 year.

We understand that, although this matter was discussed by the Council, no decision was reached and no formal approval was given to the Humanities and Social Sciences Division to publish such a commitment.

An amendment (*1970-71-72, c. 63*) to the Income Tax Act, *R.S. 1952, c. 148,* which received Royal Assent on December 23, 1971, provides that scholarships, fellowships and bursaries in excess of $500 are income subject to tax. In this connection, a note to the financial statements of the Council at March 31, 1971 indicated a contingent liability of an undetermined amount in respect of income tax which may be assessable on fellowships totalling approximately $3.5 million which are payable after December 31, 1971.

69. *Cost of unused accommodation, Ottawa.* The Canada Council has, since its inception in 1957, occupied accommodation in the Victoria building in Ottawa, the monthly rental in 1970-71 being $9,440 comprising $8,398 under term leases expiring in April 1972, 1973 and 1978 with the remaining $1,042 pertaining to space rented on a month-to-month basis.

In January 1971 the Council entered into another lease with the same landlord for office space in the newly constructed La Promenade building for a period of 10 years commencing May 1, 1971 at a monthly rental of $13,976. The move to the new office space was delayed until July 16 and the Department of Public Works assumed responsibility for the term leases for the old premises from September 1, 1971.

By arrangement, for the months of May and June, the Council while still occupying the old premises paid $13,976 per month, the rent applicable to the new premises, an excess of $4,536 per month for unoccupied space. However, for July and August the Council was obligated to pay the full rent at both locations and, as the move took place on July 16, this resulted in payments for unoccupied space in the new location of $6,988 for a half month and in the old premises of $14,160 for one and one-half months. In addition, the Council continued to pay the month-to-month rental charge of $1,042 per month for the old location until October 31.

The total cost of unoccupied space was $32,304.

70. *Unusual loss on a partnership operation.* On June 29, 1970 the Canadian Broadcasting Corporation with the approval of the Governor in Council acquired St.

Clair River Broadcasting Limited (St. Clair) and on July 24, 1970 invested $1.6 million in that Company. On the same date St. Clair concluded a partnership agreement with a private company to purchase, with retroactive effect from March 1, 1970, Windsor television station CKLW at a price of US $5,000,000. St. Clair has a one-quarter interest in the partnership. St. Clair and the partner each contributed in cash US $1,250,000, one-quarter of the purchase price. The remaining half of the purchase price, US $2,500,000, was met by notes of the partner due to mature on May 31, 1975 and bearing interest at 9% per annum. Under the partnership agreement each partner is to be credited with interest on the cash contributed to the partnership and St. Clair is to pay the interest on the partner's notes.

The partnership agreement gives St. Clair the option of acquiring up to a 49% interest in the partnership at any time prior to May 31, 1975 with an obligation to purchase on that date the partner's share at its cost, plus interest at current lending rates to a maximum of 10%.

At the effective date of acquisition by the partnership the tangible assets of the television station were valued at $4,230,000, which included $1,169,000 for an inventory of film rights. At March 31, 1971 St. Clair's investment in the partnership was $1,460,000.

The partnership sustained operating losses totalling $3,135,000 for the thirteen months ended March 31, 1971. This amount is made up of a loss of $1,892,000 to August 31, 1970, based on the audited financial statements to that date, which included $838,000 covering the write-off of a portion of the inventory of film rights acquired by the partnership five weeks earlier, and a loss of $1,243,000 for the seven-month period ended March 31, 1971, based on interim financial statements.

As a consequence St. Clair's investment of $1,460,000 has been impaired to the extent of $784,000, being its share of the $3,135,000 operating loss of the television station for the thirteen months ended March 31, 1971.

In addition to its share of partnership losses, St. Clair absorbed interest costs of $156,000 on its partner's notes and administrative expense of $5,000, and earned investment income of $91,000 including $82,000 interest on the cash contributed to the partnership, its loss for the period ended March 31, 1971 thus amounting to $854,000.

The equity of the Canadian Broadcasting Corporation in St. Clair River Broadcasting Limited was therefore reduced from $1,600,000 at March 1, 1970 to $746,000 by March 31, 1971. No provision for this loss was made in the accounts of the Corporation at that date but attention was drawn to it in a note appended to its balance sheet.

It should be noted that unless the losses experienced to date by the partnership are offset by subsequent profits the Corporation, through its subsidiary St. Clair, will have to absorb the full loss of $3,135,000 because of the requirement that on or

before May 31, 1975 St. Clair purchase its partner's share at cost, $3,750,000, plus accrued interest and its partner's share of any accrued profits to date of sale.

71. *Undercollection of holdback—Canadian Dairy Commission.* During the year producers of manufacturing milk were eligible to receive a subsidy of $1.25 per 100 pounds of milk testing 3.5% butterfat on their deliveries of milk up to the quota established for each producer for the year, allocated on a monthly basis. The subsidy is payable on deliveries up to the month's quota with any over-quota deliveries or unused portion of the quota being carried to the next month. To help meet the cost of selling surplus production at world market prices, a deduction or holdback of 26 cents per 100 pounds on deliveries up to quota and $1.25 per 100 pounds on deliveries over quota was made from subsidy payments in 1970-71.

During the year some 4,000 producers out of a total of over 100,000 made over-quota deliveries to such an extent that, on a cumulative basis, they lost entitlement either partially or completely to the subsidy they had already received in the year. The Commission's records do not reveal the total involved and the Commission, by resolution dated March 26, 1971, decided to take no action towards collection.

With effect from December 1970 the holdback was replaced, in Ontario and Quebec, by a levy deducted from payments to producers by the provincial milk marketing boards which is remitted to the Canadian Dairy Commission. These Provinces produce the major portion of the Canadian milk supply.

72. *Failure to obtain proper authority for expenditure.* Under the Government Contracts Regulations the approval of the Treasury Board is required before entry into any construction contract where costs exceed $15,000 and the lowest tender is not accepted, or where the amount of the contract exceeds $100,000.

In January 1966 the Canadian International Development Agency received approval of the Secretary of State for External Affairs to construct and equip a 32-bed addition to the tuberculosis ward of the provincial hospital in Quang Ngai, South Viet-Nam, at an estimated cost of $15,000 consisting mainly of local costs. In February 1966, before plans for the addition were submitted, information was received from the Canadian medical adviser in Viet-Nam that because of inflation it could be anticipated that estimated costs would be greatly exceeded and further that, instead of an addition to an existing hospital, a tuberculosis centre was to be constructed on a site provided by Vietnamese authorities about one mile from the provincial hospital.

A cost estimate was received from South Viet-Nam in March 1966 and the Minister approved an allocation of funds to cover costs, then estimated at $60,000 for construction and $70,000 for equipment and furnishings. The Minister subsequently authorized an additional allocation of $24,000 to cover increases in construction costs due to a devaluation of South Vietnamese currency, bringing the total allocation to

$154,000 by July 1966. This was further increased to $249,000 in November 1966. In view of the increased costs, a construction supervisor was hired in Canada and sent to Quang Ngai in July 1966. Under his personal service contract he was paid $10,000 for a period of five months and a further $5,000 was paid for transportation.

There is evidence on file that in August 1966 a contract was signed by the construction supervisor and the local contractor for the first stage of the tuberculosis centre which was completed in January 1967. There is no copy of this contract on file in Ottawa.

In January 1967 the Canadian medical adviser proposed that a second storey be added to provide 58 beds for in-patient treatment. This addition and a small annex to house a kitchen and dining room for patients, which required a further allocation of $80,000, was approved by the Minister in May 1967. Another allocation of $137,000 in November 1967 for equipment and construction of staff accommodation and additional facilities brought the total allocation for the centre to $466,000 of which $429,000 was disbursed.

Of the $429,000 disbursed, the local currency equivalent of about $290,000 was paid to the Vietnamese contractor. However, the vouchers on file cover only $191,000 of this, and $14,000 of about $31,000 paid to others in Viet-Nam.

No approach was made to the Treasury Board at any stage of the project for authority for the construction of the centre. The Agency has explained that

> this project was undertaken under Ministerial approval and the construction of the Clinic was carried out with local labour and materials. . . . Since no contract was entered into between Her Majesty and various Vietnamese sources of supply and labour, it was considered expedient to provide a Canadian construction supervisor in addition to . . . the Clinic's Director. This supervisor who verified material and labour accounts . . . served in Viet-Nam from July 21st, 1966 to December of that year. Since no contract was being entered into by the Crown no approval was sought from the [Treasury] Board nor considered necessary.

73. *Royalties not reported by a foreign licensee.* A photogrammetric plotter, an invention of the National Research Council of Canada, was licensed in 1958 by Canadian Patents and Development Limited to an Italian company. The licence agreement granted an exclusive licence throughout the world to make, use and sell the plotter and required the licensee to pay to the Corporation royalties on all units produced and sold by the licensee and its sub-licensees.

The licensee paid $262,000 in royalties from sales of plotters to the United States Air Force and others up to the end of the 1966-67 fiscal year. However, after that date, the licensee made no formal report of any further sales to the United States Air Force but reported sales to others and paid $29,000 in royalties.

In the course of the audit we found that since 1966-67 a further 15 plotters had been sold to the United States Air Force. These sales, on which approximately $118,000 in royalties should have accrued to the Corporation, were not reported by the licensee because the United States Air Force had withheld payment of the

royalty portion of the sale price. Officers of the Judge Advocate General's staff of the United States Air Force assert that the prototype and further sophistication of the plotter had been developed under a contract between the United States Air Force and a United States company which contained a clause providing the United States Government with the right to obtain future requirements on a royalty-free basis. However, this development contract has not been produced and it is not clear how such a contract could affect the rights of the patent holder particularly as the original invention is still the basic unit.

In March and April 1971, at the request of the United States Air Force, the Corporation attended meetings in Washington, D.C., with the United States Air Force and the licensee to attempt to resolve the impasse. There has been no further development and the amount of $118,000 remains unpaid. The Corporation is maintaining a close liaison with the licensee.

74. *Settlement not yet made for property acquired.* In last year's Report (paragraph 158) we referred to the acquisition by the Cape Breton Development Corporation on March 30, 1968, under authority of section 9 of the Cape Breton Development Corporation Act, *R.S., c. C-13,* of lands and personal property located on Cape Breton Island, and interests in land and personal property located under adjacent waters that constituted or formed part of the works and undertakings operated or carried on by Dominion Coal Company, Limited, Nova Scotia Steel and Coal Company, Limited, The Dominion Rolling Stock Company Limited, Sydney and Louisburg Railway Company, The Scotia Rolling Stock Company Limited and The Cumberland Railway Company. We pointed out that the notes forming an integral part of the financial statements of the Corporation's Coal Division for the year ended December 31, 1969 disclosed that the cost of acquisition, if any, to be paid by the Minister of Finance out of the Consolidated Revenue Fund, under authority of section 19 of the Act, had not yet been determined and no payments had been made. A similar note formed an integral part of the financial statements for the year ended December 31, 1970 and stated that an offer of settlement in the amount of $11,000,-000 filed in the Exchequer Court of Canada had not been accepted and settlement negotiations were in process. (See paragraph 322 of this Report.)

75. *Failure to file statements.* Section 128(1)(b) of the Canada Corporations Act, *R.S., c. C-32,* requires certain companies to file annually a copy of their financial statements with the Minister of Consumer and Corporate Affairs. A filing fee of $10 is set by the tariff of fees.

In previous Reports (paragraph 65 in 1970) attention has been drawn to the fact that a number of public companies were in default in filing statements and that many of these had never filed a financial statement since incorporation, some as far back as 1917. At November 30, 1971, 717 companies were in default of which 143 had never filed a financial statement. As the Act made no provision for penalties for failure to file financial statements, there appeared to be nothing that the Minister

could do to enforce such filing. However, an amendment (*R.S. (1st Supp.), c.10*) to the Act, which came into force on March 31, 1971, provides, in section 129(1), for a fine on summary conviction of from $100 to $500 a day for failure to file statements as required by the Act.

Section 133(2) of the Act requires every company to file with the Minister an annual return on or before the first day of June in every year giving certain information concerning the company and its directors. The fee is $10 if the return is filed on or before the first day of June. Section 133(3) provides for a fine on summary conviction of from $20 to $100 a day when a company is in default in the filing of this annual return.

If a company does not file an annual return for two consecutive years, there is a provision in section 133(9) for the Minister to give a year's notice that the company will be dissolved unless it files the returns as required. The number of companies currently in default is 3,765 compared with 2,632 at the same time a year ago. The names of 627 companies in default for two years or more were published in the *Canada Gazette* within the past year because of failure to file. Of these, 103 filed the returns upon publication of the notice and the remaining 524 are in the process of being dissolved. As in the past, no action was taken against any of the active companies for failure to file returns and the penalty provisions of section 133 of the Act remained inoperative.

Officers of the Department have informed us that "the Compliance Section of the Corporations Branch is developing a more positive approach to the question of delinquency in the filing of annual summaries and financial statements . . ." and that "the Branch . . . has requested the Department of Justice to proceed with prosecution".

76. *Costs resulting from alleged breach of lease.* In December 1962 the newly appointed Canadian ambassador in Santiago, Chile, decided that the ambassador's living accommodation which had been leased for many years was no longer suitable because of lack of security of tenure and the need for extensive repairs. He reported that he had reached agreement with the landlord for a short-term extension of the old lease, then expiring, which in no way implied its renewal. This extension was required to allow time to secure other accommodation and for the removal of furniture. After occupying the residence for four months the ambassador vacated the premises on April 27, 1963.

In January 1965 the landlord, who had assumed that Treasury Board approval of a three-year renewal of the lease at an annual rental of US $11,100 which had been obtained in October 1962, was the actual renewal of the lease, commenced civil action in the Exchequer Court of Canada for loss of income and miscellaneous expenses due to alleged breach of lease. Some five years later solicitors for the landlord put forward a proposal that the Crown pay the landlord the sum of $10,000 for damages and $300 for costs in full settlement of the landlord's claim. This

proposal was accepted by the Crown and in September 1970 the Exchequer Court of Canada ordered and adjudged that the landlord was entitled to recover $10,300 in full settlement of the claim. This amount was paid by the Department of External Affairs in October 1970.

77. *Indirect compensation to chartered banks.* Since 1962 (paragraph 66 in 1970) we have been directing attention to the fact that, although there is a prohibition in section 93 of the Bank Act, *R.S., c. B-1,* against a bank making a charge for cashing a cheque or other instrument drawn on the Receiver General, the banks have been benefiting from banking arrangements whereby large interest-free balances are left on deposit. On three occasions the Public Accounts Committee has expressed the view that if banks were to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act. (See Appendix 1, item 6.)

In its Seventh Report 1966-67, which was presented to the House on October 26, 1966, the Public Accounts Committee requested explanations from the Department of Finance on three points associated with the practice. On October 15, 1969 the Minister of Finance wrote to the Chairman of the Public Accounts Committee outlining the views of the Department but the Committee has not yet given consideration to these views.

During the year the Government continued to maintain large balances on deposit with the chartered banks, receiving interest only on the minimum weekly balance in excess of an aggregate interest-free amount of $100 million. Therefore a Crown asset in the form of large bank deposits remains at the disposal of the chartered banks of Canada free of charge, without the approval of Parliament. Interest earned in 1970-71 totalled $25 million, compared with $51 million in 1969-70, mainly because weekly interest rates ranged downwards throughout the year, from a high of 6.3% in April 1970 to a low of 2.7% in March 1971.

78. *Duplicate payment of school fees.* In paragraph 67 of our 1970 Report, we drew attention to an instance where a school board that had received Indian student fees through the Province of Manitoba, under an agreement between the Province and the Department of Indian Affairs and Northern Development, also received through the City of Winnipeg the school tax portion of the annual grants in lieu of taxes with respect to an Indian student residence paid by the Department of Finance. Duplicate payments received by the school board during the period September 1967 to December 1969 have now been determined to be $15,167.

With effect from the 1969 tax year the Department of Finance agreed to exclude the school rate in calculating municipal grants in respect of this residence and has recovered $7,127 from the final instalment of the grant to the City for the 1970 tax year. The recovery of the balance amounting to $8,040 has been the subject of

correspondence between officials of the two Departments. In the meantime further federal payments of $773,000 have been made to the Province and $1,411,000 to the City.

79. *Deficit in the Exchange Fund Account.* In the Auditor General's Report for 1959 (page 17) attention was drawn to the deficit of $204 million in the Exchange Fund Account at December 31, 1958 and it was explained that this deficit had accumulated from the sale and revaluation of gold, securities and foreign currencies to that date.

In our 1960 Report (page 49) we expressed the opinion that as the loss in the Exchange Fund Account represented a cost of exchange management over the period since establishment of the Account, it should be written off in the accounts of Canada with parliamentary authority. We also stated that in our opinion consideration should be given to transferring annually to the Consolidated Revenue Fund the profit or loss resulting from the trading operations and revaluations of holdings.

The matter was considered by the Public Accounts Committee in the course of its 1961 meetings and in its Fifth Report 1961 the Committee recommended that the Minister of Finance be requested to submit to the Committee a report dealing with the desirability of writing off the loss.

Before the Minister of Finance submitted a report to the Committee, the weakening of the Canadian dollar in relation to the United States dollar served to eliminate the deficit from the accounts of the Exchange Fund and in the period during which the value of the United States dollar in Canada was maintained at $1.08108 Canadian, the Exchange Fund Account showed a surplus of approximately $30 million.

In a statement to the Public Accounts Committee on July 21, 1964 the Minister of Finance proposed that profits or losses in the Exchange Fund Account, other than those arising from revaluations, be transferred from the Account to the Consolidated Revenue Fund annually. He also proposed that no decision be taken at that time to transfer to the Consolidated Revenue Fund future profits or losses at year-ends arising from changes in exchange rates and that the surplus in the Fund remain there to serve as a modest reserve against any possible future revaluation losses. In its Sixth Report 1964 the Public Accounts Committee noted the Minister's remarks and commented as follows:

> The Committee is glad to note that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year, is to be transferred to the Consolidated Revenue Fund
>
> The Committee approves of the Minister's proposal that the surplus of $30.3 million at December 31, 1963 be left in the fund to serve as a reserve against any future revaluation losses.

> The Committee understands the reluctance of the Minister to decide today whether future profits or losses arising from changes in exchange rates should be transferred to the Consolidated Revenue Fund at each year-end because of the possibility of these causing serious distortions in the budgetary accounts. However, the Committee also noted the statement by the Auditor General that the present surplus would be much larger had past exchange losses been charged to expenditure as they occurred, and that a drop of as little as two cents in value of the United States dollar can again cause the Exchange Fund Account to go into a deficit position. It therefore recommends that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the above-mentioned surplus and create a deficit in the Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account.

The Currency and Exchange Act, *R.S., c. C-39,* was subsequently amended to give effect to the Minister's views and now requires the annual payment into the Consolidated Revenue Fund of the net profit from trading operations in foreign exchange, gold and securities, and the net profit from the net valuation adjustments on unmatched purchases or sales of foreign exchange, gold and securities. These profits in the seven years 1964 to 1970 have amounted to a net of $17,597,000 all of which has been paid into the Consolidated Revenue Fund.

Following the freeing of the Canadian dollar on May 31, 1970 the value of the United States dollar holdings dropped and the deficit in the Exchange Fund Account amounted to $231,583,000 at December 31, 1970. However, no action has yet been taken to write this amount off as a cost of exchange management in order that the advances made from the Consolidated Revenue Fund to the Exchange Fund Account will reflect the current value of the assets held by that Account.

80. *Interest on the public debt improperly charged to departmental programs.* Canada's liability to participants in the several superannuation schemes is represented by the balances in the superannuation accounts which consist of employer and employee contributions and interest earned less payments made to participants. These balances form part of the public debt of Canada and the interest payable with respect to them is therefore a charge to the statutory appropriation of the Department of Finance for interest on the public debt. Up to June 30, 1969 the authorized rate was 4%. On July 1, 1969, on the authority of regulations made pursuant to the respective Acts, the rate was increased to conform to the Canada Pension Plan interest rate. The resulting increase in interest for the period July 1, 1969 to March 31, 1970, amounting to $51,838,000 for the Public Service, the Canadian Forces and the Royal Canadian Mounted Police Superannuation Accounts, was properly charged to interest on the public debt.

In 1970-71 a change in accounting policy resulted in interest on the public debt being charged only at the 4% rate, the additional interest amounting to $97,514,000 being improperly recorded as expenditures of the Treasury Board, $49,491,000, the Department of National Defence, $45,695,000 and the Department of the Solicitor General, $2,328,000. Since the Crown makes use of the pension funds to finance its

operations, all interest accruing on these funds should be charged to the Department of Finance as interest on the public debt.

81. *Continuing statutory spending authority provided by Appropriation Act item.* Appropriation Act No. 7, 1967, *1967-68, c.8,* includes the following Vote in the appropriations for the Department of Finance:

50. Payments in the current and subsequent fiscal years to the government of each Commonwealth Caribbean country or territory of an amount which in respect of each such year is equal to the lesser of

  (a) the amount of customs duties payable and collected on raw sugar imported into Canada from that country or territory during the calendar year ending in the fiscal year; or

  (b) the amount determined by the Minister of Finance to be that country's or territory's pro rata share of an amount that would be equal to the customs duties payable and collected on 275,000 metric tons of raw sugar imported during the calendar year referred to in paragraph (a) from the Commonwealth Caribbean countries or territories;

estimated amount required for the current fiscal year . . . . $2,200,000.

During 1967-68 a total of $1,127,000 was disbursed under this authority to the governments of five countries in the Caribbean area, and in the Public Accounts for that year the portion of the $2,200,000 which remained unexpended was included among the unexpended balances carried forward and available for expenditure in subsequent fiscal years.

The Appropriation Acts in subsequent fiscal years have included no further amounts for this purpose but during those years payments under the statutory authority provided by this appropriation have been made as follows:

1968-69	$1,148,000
1969-70	824,000

During 1970-71 payments totalling $262,000 calculated in the same way as in previous years were made to the governments of two Commonwealth countries in the Caribbean area from the International Assistance Account of the Department of External Affairs, no payments being made pursuant to the statutory authority provided by the Appropriation Act item.

It is evident from the foregoing that Finance Vote 50 of 1967-68 was not an appropriation of funds to be expended in 1967-68 and subsequent years, but was in fact legislation providing continuing authority to make payments to the governments of Commonwealth Caribbean countries determined in the manner set out in the Vote wording.

When Appropriation Acts are used to legislate in this manner, the legislation is not subjected to the same parliamentary safeguards as it would be were it introduced to Parliament as an ordinary Bill and for this reason the use of Appropriation Acts for legislative purposes is often criticized. In March 1971 the Speaker of the House of Commons ruled that Veterans Affairs Votes 10c and 35c which were included in the 1970-71 Supplementary Estimates (C) were legislative in nature and could not be

justified in the Appropriation Act. The items were withdrawn and do not appear in Appropriation Act No. 1, 1971, *1970-71-72, c.25,* which includes the other items making up that particular set of Estimates. In giving his ruling on March 10, 1971, Mr. Speaker stated that the legality of considering supplementary estimates which are in effect amendments to existing statutes has never been accepted readily by the House. Mr. Speaker also stated that the items were "clearly and unquestionably legislative in intent" and that there could be no suggestion that there had been an attempt "to dissimulate the purpose".

Finance Vote 50 of 1967-68 did not amend existing legislation but introduced entirely new legislation. Since it was not a dollar vote, as items which are exclusively legislative in nature usually are, but provided funds to meet some of the cost of the legislative enactment, its purpose was not as clear as it would have been had a dollar vote been used. This is evident from the fact that the unspent balance of the $2,200,000 appropriated by the item was erroneously reported in the Public Accounts as available in subsequent years.

Our examination of the transactions indicates that the authority of Vote 50 is no longer required and that future payments are to be on some other basis. In these circumstances we recommend that the continuing spending authority provided by the Vote be revoked as it is not in the best interests of Parliament that statutory spending authority which does not appear in the Revised Statutes of Canada 1970, and which therefore is not readily apparent to Members of Parliament, should remain available for use at any time in the future.

82. *Acquisition, installation and relocation of mobile laboratory complex, West Vancouver, B.C.* On January 7, 1970 the Fisheries Research Board requested the Department of Supply and Services to supply and install 10 research trailer units. The Board recommended that the Department negotiate with a contractor who had previously supplied trailers to the Board in West Vancouver on the basis that

> It is extremely important that the new laboratory units are similar in construction and appearance to those presently housing Fisheries Research Board personnel at West Vancouver

and also that delivery by March 27, 1970 was most urgent.

On February 26, 1970, without calling for tenders, the Department awarded the contract for the supply of the trailers to the contractor at a firm price of $199,500 and on April 14, 1970 awarded him the contract for their installation at a ceiling price of $35,700.

On April 30, 1970 the Board instructed the contractor to stop work on installation since the Board had decided to relocate the trailers on the same property. The contractor completed the relocation in September 1970 for which he was paid $4,600. To permit this relocation it was necessary to relocate a 5-unit storage complex at an additional cost of $4,600, bringing to $9,200 the amount that must be considered non-productive.

83. *Inadequate accounting and financial control procedures, Indian agencies.* In our past four Reports (paragraph 69 in 1970) attention has been drawn to the results of our examination of a number of the field offices maintained by the Department of Indian Affairs and Northern Development for the administration of its programs for the Indian population. Reference was made to the need for a strengthening of financial control over field activities and to remedial action taken by the Department.

Examinations during 1970-71 at 11 of the 54 agencies and district offices again resulted in criticisms of several matters including the internal control at eight locations, the cash handling practices at eight locations, the accounts receivable processes at nine locations, and the administration of Crown-owned accommodation at four locations. As the remedial measures mentioned in last year's Report were not fully in effect throughout 1970-71, it has not been possible for us to assess their effectiveness.

84. *Inadequate accounting for appropriation and Indian band funds.* The Department of Indian Affairs and Northern Development has to an increasing extent in recent years transferred to Indian bands responsibility for the management of public funds provided for various band programs and, in accordance with section 69 of the Indian Act, *R.S., c. I-6,* for the management of band revenue moneys. A condition of the transfer is that the bands provide the Department with yearly audited financial statements. Reference was made in our 1970 Report (paragraph 69) to the results of an examination carried out in connection with the statements which were to have been submitted by bands managing their own revenue moneys during 1968-69.

During the year some 300 bands were responsible for management of some $22 million. A review of the departmental files for 205 of these bands revealed that four had not submitted the required statements with respect to the administration of band revenues and, where applicable, public moneys in 1969-70. Of the 201 received, 87 were qualified by the auditors including 74, along with 107 others, in respect of which the bands had failed to satisfy one or more of the departmental instructions, such as preparation of a balance sheet, completion of the Department's audit questionnaire and submission within three months of the fiscal year-end. In our review of departmental headquarters files we noted that the bands' statement figures had not been reconciled with departmental records. It appears that in many instances the statement figures were not presented in a manner suitable for reconciliation.

85. *Losses due to inadequate security deposits.* To ensure the fulfilment of commitments made by individuals and companies, the Canada Mining Regulations and the Canada Oil and Gas Land Regulations require the deposit of cash, bonds or an approved promissory note equal to the value of the exploratory work to be done. Up to July 1969, Canada bonds, including in some cases Canada 3% perpetual bonds which have been at a substantial discount on the market for many years, were

accepted at par value by the Department of Indian Affairs and Northern Development for security deposit purposes. Because the amount realized from the disposal of bonds in the case of forfeiture would sometimes be less than the value of the work to be performed, the Department has since July 1969 required that Canada bonds received as security be accepted at market value rather than at par value. However, it did not call for additional security in the case of bonds lodged earlier, with the result that during 1970-71 the Crown suffered a revenue loss of $23,600 when six holders of exploratory or prospecting permits failed to fulfil the terms of the permits and forfeited deposits of $59,800. Of the loss, $22,900 was attributable to the fact that only $21,700 was realized on disposal of Canada perpetual bonds, which had been accepted at their par value of $45,800.

A parallel situation exists in the Department of Energy, Mines and Resources, which in August 1969 directed that in future bonds be accepted as guarantee deposits only at market value, but did not apply that requirement to deposits then held. Other departments and agencies accept Canada bonds as security at face value, and at least one department specifies in its tender form that the amount of the bonds to be deposited is to be based on their par value.

In order to reduce the possibility of similar losses in future, the Treasury Board should direct that departments accept bonds as security only at market value and that holdings be reviewed periodically and supplemented when necessary to ensure that the then market value provides the amount of security required.

86. *Cost of maintaining closed residential school, Brantford, Ont.* In 1964 the then Department of Citizenship and Immigration purchased from a religious organization a property known as the Mohawk Institute, a residential school for Indian pupils, which was surrounded by Indian land forming part of the Six Nations Reserve at Brantford. The Treasury Board, in approving the transaction, concurred in the understanding that the property was to be transferred to the Six Nations Band when no longer required for school purposes.

The school was closed with effect from June 30, 1970. Its future was discussed in the House of Commons on November 25, 1971, indications then being that a detailed and final plan for use of the facility was still awaited. We have since been informed that the property is to become the responsibility of the Six Nations Band Council on April 30, 1972. Meanwhile, the Department of Indian Affairs and Northern Development has continued to bear the expense of maintaining the Institute, the cost from June 30, 1970 to December 31, 1971 being $95,700.

87. *Failure to collect revenue due to the Crown because of inadequate control over contracts.* Under the Crown's program to provide Canadian defence industry with financial assistance for product development and for the establishment of Canadian sources of supply, the Department of Supply and Services on behalf of the Department of Industry, Trade and Commerce has entered into agreements providing for

Crown contributions to approved projects. Although not required by the text of the vote providing the funds, the agreements generally include a repayment provision whereby, in certain circumstances, the Crown may recoup its contribution from profits realized by the contractor on production resulting from the project assisted or, alternatively, the contractor may reinvest an equivalent amount in further development work. In last year's Report (paragraphs 73 and 74) we commented on the inadequacy of procedures in the Department of Industry, Trade and Commerce for the determination and collection of amounts which become due to the Crown under these agreements. We pointed out one instance where the failure of the Department to take prompt effective action resulted in the Crown not recovering $522,000 due from a contractor. We also suggested that a statement of general procedures was required to effect co-ordination of the activities of the Department with those of the Department of Supply and Services.

During the year the procedures of the Department of Industry, Trade and Commerce in the control over revenue which may become due to the Crown under assistance agreements showed little improvement and no statement of general procedures required to effect co-ordination of the complementary roles of the two Departments was issued. However, both of these areas are being considered by the Department.

In August 1971 the contractor referred to in paragraph 74 of last year's Report agreed to pay the $522,000 due to the Crown in weekly instalments of not less than $1,000 commencing October 1, 1971.

88. *Grant to Standards Council of Canada.* Included in the Main Estimates for 1970-71 which were tabled in the House on February 11, 1970 was provision for payment from Industry, Trade and Commerce Vote 5 of a

Grant to assist in establishing a national standards association $190,000

This Vote is provided for in Appropriation Act No. 3, 1970, *1969-70, c.46.*

On October 7, 1970 Royal Assent was given to the Standards Council of Canada Act, *R.S. (1st Supp.), c.41,* which established a corporation to be known as the Standards Council of Canada. Section 17 of the Act provides that:

> All amounts required for payment of salaries and other expenses under this Act, including expenses of administration, shall be paid out of money appropriated by Parliament for the purpose.

On February 11, 1971 an amount of $155,000 was charged to Industry, Trade and Commerce Vote 5 as a "grant to assist in establishing a national standards association" and was credited to the Department of Industry, Trade and Commerce suspense account. From the suspense account, salaries and other expenses totalling $21,000 were paid out up to March 31, 1971 leaving a balance of $134,000 in the suspense account at that date.

A number of corporations have a section in their Acts with wording similar to section 17 quoted above. Invariably the expenses of these corporations are paid from the Consolidated Revenue Fund as a charge to a departmental appropriation. In our opinion the making of this grant to the Council, with the portion of the grant which was not required for expenses being retained in a departmental suspense account, was irregular and contrary to the lapsing provisions of section 30 of the Financial Administration Act.

89. *Taxation of recaptured capital cost allowance with respect to vessels sold.* On December 10, 1949 Royal Assent was given to The Canadian Vessel Construction Assistance Act, *1949 (2 Sess.), c.11* , an Act to encourage the construction and conversion of vessels in Canada. The inducement for the construction and conversion of vessels took the form of permission to write off the capital cost as expense for income tax purposes in a much shorter period of years than is normally the case.

When a vessel or any other capital asset is disposed of for more than its book value (its cost less the amount of capital cost allowance claimed as an expense for income tax purposes), any excess of the selling price over the book value ordinarily becomes taxable in the hands of the former owner. However, to further encourage the construction and conversion of vessels in Canada, the Act exempted such "profits" on the sale from the provisions of the Income Tax Act, *R.S. 1952, c. 148,* "to the extent that they [the proceeds of disposition] are used for replacement under conditions satisfactory to the Canadian Maritime Commission".

An amendment (*1957-58, c. 12*) to The Canadian Vessel Construction Assistance Act, assented to on December 20, 1957, extended the exemption from the Income Tax Act by permitting the former owners to deposit an amount at least equal to the tax that would normally be payable on the proceeds of disposition and by further providing that all or any part of the deposit "may be paid out to or on behalf of any person who, under conditions satisfactory to the Canadian Maritime Commission and as a replacement for the vessel disposed of, acquires a vessel . . ."

The Canadian Vessel Construction Assistance Act was repealed in 1966-67 by an amendment (*1966-67, c.91*) to the Income Tax Act, and at the same time there was incorporated in the Income Tax Act a similar provision reading as follows:

> 20. (16) All or any part of a deposit made under subparagraph (ii) of paragraph (a) of subsection (12) or under the Canadian Vessel Construction Assistance Act may be paid out to or on behalf of any person who, under conditions satisfactory to the Minister of Industry and as a replacement for the vessel disposed of, acquires a vessel before 1974 . . .

In 1965 a Canadian shipping company deposited with the Department of Industry, Trade and Commerce an amount of $2,506,000 representing the income tax that would normally have been payable with respect to the proceeds of the sale of a large ocean-going vessel. Subsequently, a total of $364,000 was released to the company in consideration of costs incurred in the conversion of two other vessels owned by it.

Up to March 31, 1971 a further $2,141,000 had been released to 32 other owners of vessels in consideration of expenditures by them on the conversion of three ships and on the construction of 30 fishing boats, 27 boom boats, 14 barges, 7 tugs and 1 work boat. One of the owners to whom a total of $1,622,000 was released in connection with the construction of 14 barges and 2 tugs was Northern Transportation Company Limited, a Crown corporation. The money was released to a bank as a trustee in three amounts between November 1969 and February 1970, and the bank disposed of the amounts on instructions from Northern Transportation Company Limited, as follows:

Remitted to the original depositor	$ 1,096,000
Remitted to Northern Transportation Company Limited	510,000
Remitted to a broker who negotiated the transactions	16,000
	$ 1,622,000

Presumably the remainder of the $2,141,000 when paid out was similarly divided among the depositor, the persons having the vessels constructed or converted, and a broker.

Attention is drawn to this legislation because its intent seems to have been to encourage ship construction or conversion in Canada by means of income tax concessions, while at the same time protecting the Crown from loss of income tax when a person sells a ship without providing a replacement. From the disposition that has been made of the amount of $1,622,000 it is not clear

(1) how the return to the depositor of the equivalent of income tax amounting to $1,096,000 in any way encouraged ship construction or conversion in Canada.

(2) how the receipt of $510,000 by Northern Transportation Company Limited in any way encouraged ship construction or conversion in Canada. This Company required the additional tugs and barges in its work and as a Crown corporation it could have been expected to obtain them in Canada in any event.

(3) how a fleet of tugs, boats and barges can be considered a replacement for the substantially larger ocean-going vessel that was disposed of.

During the year a total of $4,652,000, which ordinarily would have been payable as income tax, was deposited in the account by 42 depositors, $487,000 was returned to 17 depositors and $4,625,000 was paid to, or transferred to the credit of, 150 other shipowners. The balance at March 31, 1971 was $3,391,000. The $24,000 difference between this figure and the amount appearing in the Public Accounts is due to an error of this amount in the Public Accounts offset by a similar error in the asset item "Securities held in trust".

The amount of $3,391,000 is held with respect to 63 depositors and transferees. Most of the deposits are in the form of bonds and many exceed the amount that is required to be on deposit. Because of the manner in which the deposit accounts are kept they do not readily disclose the total excess deposits which must be paid out on

demand or the total of the income tax equivalent deposits which are required to be on deposit until ship construction or conversion is complete.

Parliament does not receive any report on the operations under the legislation nor on its effectiveness in encouraging the construction or conversion of ships in Canada. A review might well be appropriate.

90. *Lack of co-ordination, planning, quality control and effective marketing in Government publishing.* In our 1968 Report we referred to the need for effective planning in the printing of government publications for sale or free distribution and cited five instances where losses had resulted.

In our 1969 Report we gave seven examples of the over-estimating of sales potential leading to excessive stocks on hand. These indicated the need to have procedures available for the timely introduction of promotional campaigns and price adjustments designed to recover the maximum amount from the sale of publications and to keep storage costs to a minimum.

In our 1970 Report (paragraph 168) we referred to the disposal, mainly as scrap paper, of 3,000,000 copies of publications with a retail value of about $2.5 million. These represented 18,000 titles out of a stock on hand of 50,000 titles with a retail value of about $7 million. We gave nine examples of publications which were disposed of and two examples to illustrate how surplus stocks sometimes occur.

For several years (paragraph 291 in 1970) we have commented on the lack of adequate control over stocks of publications held for sale, and have pointed out that because inventory records are not complete, there is no way of relating cost of sales to sales.

Since the Royal Commission on Government Organization presented its report on printing and publishing services in 1962, there have been 15 studies on the printing and publishing activities of the Government. Despite these studies, the underlying problems have not been corrected. The latest study report presented in August 1971 stated that the responsibilities for the publishing functions have been so diffused that in practice there has been little co-ordination, planning, quality control or effective marketing. To this we might add that the financial controls are inadequate for the protection of the Crown against loss.

For a summary of the publishing activities carried out by Information Canada during the year, see paragraph 341 of this Report.

91. *Examination of Canada Manpower Centres and Regional Offices.* In paragraph 78 of our 1970 Report we commented on weaknesses in the control of transactions that had been disclosed in our examination of 33 of the 338 Canada Manpower Centres and five Regional Offices across Canada. These weaknesses related to: the determination of eligibility for, and the payment of, occupational training allowances, manpower mobility grants and adjustment assistance to immigrants; misuse of mobility grants; payment of mobility grants on appointment to

the Public Service of Canada; and inadequate accounting for, and collection action on, recoverable assistance and overpayments of allowances. These matters were brought to the attention of the Department and amended procedures had been issued correcting many of the weaknesses and the remainder were being studied.

During the year a further 20 Canada Manpower Centres were examined and we again reported to the Department weaknesses in the determination of eligibility for, and the payment of, occupational training allowances, manpower mobility grants and adjustment assistance to immigrants. We also drew the Department's attention to weaknesses in the control of cash receipts and in the operation of departmental imprest bank accounts. All of these matters are being studied by the Department.

92. *Inadequate liaison between the Department of Manpower and Immigration and the Unemployment Insurance Commission.* In previous years (paragraph 79 of our 1970 Report) we stated that the number of disqualifications of persons claiming benefits under the Unemployment Insurance Act, *R.S., c. U-2,* for refusing to accept suitable employment or for neglect of opportunity for work, had declined steadily from 21,299 in 1964-65 to 2,024 in 1968-69 and that this decline represented a drain of some $3 million on the Unemployment Insurance Fund in 1968-69. Because disqualifications under these conditions can usually be imposed only on the basis of reports of job refusals submitted by manpower counsellors, this reduction in the number of disqualifications was a direct result of inadequate liaison between offices of the Unemployment Insurance Commission and manpower centres of the Department of Manpower and Immigration. The following were among the matters noted:

(1) many persons drawing unemployment insurance benefits were not registered in manpower centres;

(2) numerous employment registrations took the form of alphabetically-filed name slips which could not be readily matched against job vacancies;

(3) regular contact was not maintained between manpower centres and registered claimants;

(4) the Commission offices were not notified when manpower centres were aware of or had arranged for placement; and

(5) information on restrictions imposed by claimants on desired wages, hours, locale or acceptable types of employment, which might ordinarily be the basis for disqualification, was no longer available to Commission interviewers and insurance officers.

We also stated last year that, following studies by officials of both the Department and the Commission, revised procedures had been introduced with the aim of eliminating ineffectual paper work and duplicate registrations and, at the same time, providing more effective enforcement of the Unemployment Insurance Act.

Officials from the Department of Manpower and Immigration appeared before the Public Accounts Committee on April 6, 1971 during its review of comments along the above lines in our 1969 Report. The departmental witnesses outlined new procedures which had been introduced to remedy the defects arising from the

inadequate liaison. In its Sixth Report 1970-71, presented to the House on June 30, 1971, the Committee stated that it had heard evidence that improvements had been made.

These new procedures were implemented in October 1970. The number of disqualifications for refusal or neglect of opportunity for work has increased to 2,438 for a year but our examinations of six of the 67 Commission offices subsequent to the introduction of the new procedures disclosed that weaknesses in liaison still existed.

93. *Understatement of expenditure for manpower training allowances.* Vote 10 of the Department of Manpower and Immigration makes provision for payment of the training allowances set out in sections 7, 8 and 9 of the Adult Occupational Training Act, *R.S., c. A-2.*

In previous years the allowances paid in early April, covering periods in two fiscal years, have been pro-rated between the years. The Department calculated that the allowances paid in April 1971, which were applicable to 1970-71, amounted to approximately $4.5 million. However, only $1.8 million was charged to the 1970-71 appropriation while the remaining $2.7 million was charged to the 1971-72 appropriation.

If the full amount of $4.5 million applicable to 1970-71 had been charged to Vote 10, the appropriation would have shown an overexpenditure as only $210,000 was available at the year-end. Furthermore, the amount of $2.7 million is not included in the "Summary of Accounts Properly Chargeable to the Fiscal Year 1970-71 but Carried Over to the Fiscal Year 1971-72", which appears on pages 11.23 to 11.25 of Volume I of the Public Accounts for 1970-71. The Department feels that this Summary refers only to goods received or services rendered but in our opinion it should include all amounts applicable to the year which were payable during the year or in the thirty days immediately following the end of the year.

94. *Contributions in respect of expenditure by the provinces on training facilities.* Under agreements with the provinces (and the territories) authorized by the Technical and Vocational Training Assistance Act, *1960-61, c.6,* and its successor, the Adult Occupational Training Act, *R.S., c. A-2,* Canada has contributed $1,070 million to the provinces in connection with technical and vocational training and occupational training facilities. The entitlement of each province, as set out in section 21 of the Adult Occupational Training Act, was based on the youth population in 1961 which is defined as the number of persons in the age group of fifteen to nineteen years of age inclusive. The following table shows the entitlement by province, the amount claimed under the Act and paid from annual appropriations as a contribution towards provincial expenditure, and the unclaimed balance:

	Entitlement	Payments	Unclaimed balance
Quebec	$ 373,941,000	$ 296,289,000	$ 77,652,000
Ontario	349,507,000	349,507,000	—
British Columbia	90,122,000	64,521,000	25,601,000
Alberta	79,203,000	79,093,000	110,000
Saskatchewan	58,291,000	40,254,000	18,037,000
Manitoba	56,647,000	30,915,000	25,732,000
Nova Scotia	51,391,000	41,238,000	10,153,000
New Brunswick	42,811,000	33,018,000	9,793,000
Newfoundland	35,063,000	22,398,000	12,665,000
Prince Edward Island	7,100,000	4,077,000	3,023,000
Northwest Territories	1,359,000	70,000	1,289,000
Yukon Territory	958,000	958,000	—
	$ 1,146,393,000	$ 962,338,000	$ 184,055,000

Following a decision to accelerate the phase-out of the program, Manpower and Immigration Vote 10a, Appropriation Act No. 4, 1970, *1970-71-72, c. 4,* authorized the Minister of Manpower and Immigration to enter into agreements with any province for contributions in 1970-71 and 1971-72 in respect of capital expenditure by the province on occupational training facilities in the years 1970-71 to 1974-75 inclusive. Pursuant to these agreements, the following payments were made in the final months of 1970-71:

Quebec	$ 49,150,000
Manitoba	13,000,000
British Columbia	13,000,000
Saskatchewan	10,336,000
Newfoundland	8,535,000
Nova Scotia	6,000,000
New Brunswick	4,896,000
Prince Edward Island	2,145,000
Northwest Territories	800,000
Alberta	110,000
	$ 107,972,000

As the contributions are in respect of expenditures by the provinces in the five years 1970-71 to 1974-75, the payments largely represent interest-free loans to the provinces.

The amounts of $13,000,000 paid to British Columbia and $6,000,000 paid to Nova Scotia were charged to the 1970-71 appropriations of the Department of Manpower and Immigration although there was no liability for payment in that year. The covering agreements were not drawn until April 5, 1971 and were accepted by the Provinces on April 20 and 26, 1971 respectively.

The Department followed the practice under the first phase of the program of having provincial records examined by the Audit Services Bureau of the Department of Supply and Services to ensure that contributions were being made only with respect to expenditure by the provinces that qualified under the program. However,

when the accelerated phase-out of the program was initiated, the examination of provincial records was immediately discontinued on the grounds that any expenditure that might be disallowed for purposes of claim under the first phase of the program would only increase the amount payable under the phase-out, up to the full amount of the entitlement provided in section 21 of the Adult Occupational Training Act. As a result, approximately $105 million in claims under the first phase of the program are not being examined by the Audit Services Bureau, and adjustments arising from their previous examinations that had not already been offset against claims have been ignored. A consequence of this is that provinces have been reimbursed for expenditure that does not qualify for sharing, such as provincial sales tax, or for which they may have been subsequently reimbursed, such as federal sales tax. Further, the provinces might not construct all of the facilities for which Canada has made a contribution.

95. *Cost of the National Arts Centre, Ottawa.* In previous Reports (paragraph 80 in 1970) we have referred to the substantial increase from $18,223,000 to $46,426,000 in the estimated cost of construction of the National Arts Centre, and the exclusion of the Centre itself from the recorded assets of the National Arts Centre Corporation.

During the year $93,000 was expended bringing the accumulated capital outlay on the Centre to March 31, 1971 to $45,175,000. This amount was provided by annual appropriations of the Secretary of State which have also provided a total of $998,000 for equipment, bringing the total cost to $46,173,000. Although the Centre was officially opened in May 1969, a final certificate of completion has not yet been issued by the Department of Public Works.

The Centre itself is still not included among the assets of the Corporation. It is rented from the Crown under a twenty-year lease signed during the year. Under the terms of the lease, the Corporation is responsible for maintenance and operation of the building but is not required to pay rent or to provide for interest and depreciation charges. Consequently, the accounts and financial statements of the Corporation do not reflect the complete cost of operating the National Arts Centre. (See paragraph 358 of this Report.)

96. *Rent under lease agreement not collected in full.* Paragraph 84 of our 1970 Report referred to the failure of the National Capital Commission to enforce the terms of a lease that it had granted on October 15, 1967 for a fully furnished hotel in Ottawa and to the small portion of the rent that had been collected, even after the monthly rental rate had been reduced substantially.

By October 31, 1971 the anticipated rental of $84,000 based on the rate stipulated in the lease had been reduced to $34,000 through the reduction in rate, of which $4,600 had been received covering the period October 1967 to April 1968. The status of the tenant's account with the Commission at October 31, 1971 was:

Rental from October 15, 1967 to October 31, 1971	$ 34,000	
Taxes recoverable from the tenant	46,000	
Water charges recoverable from the tenant	2,700	
Parking lot rental	1,350	
		$ 84,050
Less:		
Allowance to cover renovation costs	28,000	
Rental paid by tenant	4,600	
		32,600
Amount owing by tenant at October 31, 1971		$ 51,450

Following studies of the operation of the hotel and of its potential by two consultants, a new lease was signed for a five-year period effective November 1, 1971 under which the tenant is required to pay a monthly amount of $2,200 to be applied as basic rent $700, current taxes $1,000, and arrears $500. The tenant was also required to make a payment of $5,000 in November which was applied against the arrears owing by him. The new lease contains a clause whereby failure to make the required payments constitutes default and termination of the lease and the Commission may re-enter and take possession of the premises without further notice.

97. *Costs arising from reconveyance of an expropriated property to the original owner.* As part of a redevelopment project in the area adjacent to Confederation Square in Ottawa, the National Capital Commission in 1965 expropriated all properties in the city block east of the Square. Prior to settlement for one of the properties, the Commission decided that the estimated cost of $2.5 million was high in relation to the contribution that the property would make to the project and, with the approval of the Governor in Council, the property was reconveyed to the original owner in 1970, with the covenant that the owner would co-operate with any future plans of the National Capital Commission for the development of the area. The owner was paid $32,300 as compensation for expenses arising out of the expropriation and for release of all claims arising therefrom.

The Commission also incurred appraisal costs of $12,200 in respect of the property, bringing the total non-productive expenditure to $44,500.

98. *Questionable pension awards under "Plan Restore".* In previous Reports (paragraph 87 in 1970) we have commented upon the number of servicemen being retired by the Department of National Defence with immediate annuities at an early age.

In April 1970, with the approval of the Treasury Board Secretariat, the Department introduced "Plan Restore" to reduce the strength of the regular force by 2,175 men in nine trades in which a surplus was forecast for 1973. While no man was required to leave his trade, all were given an opportunity to indicate their willingness to be released to promote economy or efficiency. In addition, men with a rank of corporal or below, and with six or more years to serve before reaching compulsory release age, were invited to apply for remuster to one of a number of trades in which openings existed.

An interim report on the results of "Plan Restore" disclosed that 557 men had asked to be remustered to new trades and that 1,153 others would be released by October 1971 in accordance with their expressed preference; the remaining surplus of 465 men is to be reduced gradually through normal attrition. By March 31, 1971, 331 men had been released under the Plan; of these 113 between the ages of 27 and 40 are receiving immediate annuities ranging in amount from $807 to $3,782.

Under the Canadian Forces Superannuation Act, *R.S., c. C-9,* an annuity cannot be paid to a contributor with less than ten years service in the regular force while a contributor with longer service is entitled to an annuity as follows:

Reason for retirement	Minimum years of service	Type of annuity
Age	10	Immediate annuity
Disability	10	Immediate annuity
Economy or efficiency	20	Immediate annuity
	10	With the consent of the Treasury Board, an immediate annuity reduced until age 65 by 5% for each full year up to 6 by which his service is less than 20 years or his age is less than the retirement age applicable for his rank, whichever is the lesser
Misconduct	10	With the consent of the Treasury Board, the whole or part of any annuity specified by the Board to which he would have been entitled had he been retired to promote economy or efficiency
Other reasons—		
Officer	20	Immediate annuity reduced by 5% for each full year by which his age is less than the retirement age applicable for his rank
Man	25	Immediate annuity
	20	Immediate annuity reduced by 5% for each full year by which his service is less than 25 years or his age is less than the retirement age applicable for his rank, whichever is the lesser

Releases under "Plan Restore" rely on section 10(3) of the Act which provides benefits for a contributor who is compulsorily retired from the regular force to promote economy or efficiency. The release of men under "Plan Restore" will undoubtedly promote economy or efficiency, the men being surplus to requirements; however, the word "compulsorily" is difficult to reconcile with the alternatives offered.

The Treasury Board Secretariat appears to have ignored this difficulty when it sent the following reply to the Department's request for Treasury Board concurrence with "Plan Restore":

> With respect to Treasury Board's consent to an immediate or deferred annuity for servicemen with more than ten and less than twenty years of service and who are retired, I fully appreciate

that you are avoiding "forced attrition" but, since the options you are affording your men derive from Government policy which is designed to produce substantial economies, the retirements you make in the period October 1, 1970 to October 1, 1971 can be characterized as a direct expression of that policy, and I foresee no problem insofar as annuities are concerned, provided you identify each retirement as compulsory to promote economy or efficiency.

The Canadian Forces Superannuation Act requires that a board, known as the Service Pension Board, "determine, in the case of any contributor who is retired from the regular force, the reason for his retirement . . . and upon certification thereof the contributor shall be presumed, *prima facie,* to have been retired . . . for that reason". The Board's determination in "Plan Restore" cases has been that the member was "compulsorily retired from the regular force to promote economy or efficiency".

99. *Overpayments to Servicemen not recovered on their release.* At March 31, 1971, 461 former members of the Forces owed the Department of National Defence a total of $84,000. (See paragraph 247 of this Report.) The individual balances arose mainly from departmental administrative errors and from claims by members for allowances to which they were not entitled. During the year the Department deleted from its accounts debts totalling $6,500 owed by 45 former members.

The Department has the authority under the Canadian Forces Superannuation Act, *R.S., c. C-9,* to recover any debit balance in the pay account of a former member of the regular force, whether the balance existed at the time of his retirement or was ascertained after that time. The Regulations provide that recovery may be made either in a lump sum, from a return of pension contributions or a cash termination allowance; or from an annuity, by monthly instalments in an amount equal to 10% of the net monthly annuity. No interest is charged on unpaid balances.

The balances outstanding at the year-end ranged from a few cents to over $6,000. A total of $55,200 was owed by 278 annuitants, over 50% of whom had been released during the year. All but $9,000 is expected to be repaid before 1980, but the last instalment is not due until the year 2001. Of the remaining 183 accounts which are not secured by annuities: 26 accounts totalling $5,100 were considered to be current by the Department although no payment had been received on 11 of them during the six-month period preceding the year-end; 50 accounts totalling $15,000 had been referred to legal officers to consider initiation of claims action; and 107 accounts totalling $8,700 to which the Crown does not have a legally enforceable claim were held in "suspense".

The success of the Department in recovering a debit balance in a pay account depends to a considerable extent on when the indebtedness is determined. Presently, because of a backlog of work, the departmental audit of pay accounts usually takes place after the member has been released, and when recovery of an overpayment cannot be made from regular or termination pay. We have recommended to the Department that consideration be given to a preliminary audit of these accounts before the member commences his terminal leave thus improving the possibility of

recovery from payments still due him. We are of the opinion that consideration should also be given to amending the Canadian Forces Superannuation Regulations to increase the rate of recovery from an annuity payable to a member who has either fraudulently obtained or knowingly accepted overpayments of pay and allowances.

100. *Lack of verification of continuing eligibility for Service annuities.* Currently more than 35,000 cheques are mailed monthly to pensioners under the Canadian Forces Superannuation Act, *R.S., c. C-9,* and the Defence Services Pension Continuation Act, *R.S., c. D-3.* Payments made in 1970-71 totalled $91.3 million. Prior to 1969, a request for a declaration of status was sent with the pension cheque once in each year as a means of checking on the possibility of payments being continued after annuitants died, widows remarried, children reached maturity or pensioners were employed in the Public Service. The latest complete circularization was carried out in 1968. In April 1969 requests were sent out but there was no follow-up on declarations that were not returned.

In our view periodic confirmation of eligibility for an annuity is essential. In order to establish the continued existence of an annuitant, the obtaining of life certificates has always been a requirement in most Commonwealth countries. In the United Kingdom the obtaining of life certificates is an established procedure of all governmental pension-paying authorities.

101. *Unrealistic meal charges to Canadian Forces personnel.* In previous Reports (paragraph 88 in 1970) we pointed out that the revised pay structure established for the Canadian Forces in October 1966 was formulated on the concept that remuneration should be based on skill and responsibility, as is the case in industry, and that the subsidies inherent in the older pay structure should be removed. In keeping with this concept, the Department of National Defence introduced monthly charges for daily rations, which subsequently were increased in June 1968 to $56 for an officer and $46 for a man, except that while a man is serving on a ship or in the field or at other locations designated by the Chief of Defence Staff the rate is $36. We further noted that the Department calculates the average purchase cost of unprepared rations but does not compile the costs of transportation, warehousing, preparation and serving of meals, and other related expenses although these could represent a large part of the overall cost. We cited the results of our examinations at various messes which revealed in every instance that the cost of food and the salaries of the kitchen and dining room staffs alone exceeded the total amount charged the servicemen. We expressed the view that it was essential that, as a prerequisite to the establishment of reasonable charges, the costs of providing the service must be determined and a policy established to ensure that the cost is recovered to the maximum extent possible. Until this is done, there is a continuing subsidy which is contrary to the principles underlying the present pay structure. We also reported that the Department was attempting to formulate a new policy.

For the year ended March 31, 1971 the Department recovered about $9 million from meal sales and charges for rations provided to members on ration strength. The cost of food exceeded these recoveries by more than $7.8 million. The portion of this excess applicable to meals, which a commanding officer is authorized to provide free of charge to kitchen and dining room staff, certain members of the Reserve Force, recruits and in certain circumstances to various servicemen and civilians, cannot be readily determined as units are not required to report on free meals issued. However, on the basis of our own estimates we doubt that present charges for rations provided are sufficient to recover even the cost of food.

The Department has not attempted to determine the overall cost of providing rations; however, during the year it completed a cost analysis of messes having an average ration strength of less than 17, and identified 29 of these as being uneconomical in view of the estimated costs of rations, staff, and operation and maintenance of the facilities. Pending consideration of other factors, such as operational requirements and the impact of closure, a firm policy has yet to be established.

In October 1971 a proposal was submitted to the Treasury Board recommending that monthly charges for rations be reduced to $50 for an officer and $41 for a man. This reduction is based on the premises that recovery of the costs of food, preparation and dining room service should be commensurate with present costs to the Department, and that all servicemen should receive a standard abatement for absences from the mess for periods of 48 hours or more in place of abatements when actually absent for periods of seven days or more, the change from actual to standard abatements being introduced to reduce administration. In indicating approval of the proposal the Treasury Board Secretariat advised the Department in part as follows:

> We are aware of the Auditor General's views that meal charges to Canadian Forces personnel are too low, and it seems to us that a full re-appraisal of meal rates is desirable to ensure that there is no unwarranted subsidy present.

Needless to say, these proposed charges will not reduce the present subsidies.

There is within the Department considerable opposition to the curtailment of messing facilities and the removal of any subsidies inherent in the present charges for rations.

102. *Subsidization of dental services provided to dependants.* The Department of National Defence provides dental services to dependants of service personnel and other civilians at designated locations. Until January 1970, regulations issued under the authority of the National Defence Act, *R.S., c. N-4,* prescribed the charges for these services as those "authorized from time to time for that type of dental treatment when made in respect of persons under the care of the Department of Veterans Affairs". The charges were periodically amended on the advice of the Department of Veterans Affairs until July 1968 when that Department adopted a

schedule of fees equivalent to 90% of those specified in schedules of the various provincial dental associations. The Department of National Defence did not similarly increase its charges for dental services but in August 1968 recommended to the Treasury Board that the regulations be amended to provide an immediate increase in charges for dental services of 35% with a further increase of 30% in two years time. The Department estimated that an increase of 65% over the fees established in 1966 would cover departmental costs and proposed the phased increase "to avoid hardship".

In April 1969 the Treasury Board noted that the general policy was to charge commercial rates for services where they could be determined, and that as military personnel receive pay comparable to that of their civilian counterparts, they should also bear the same costs as civilians in respect of dental care for their dependants. A series of discussions between the Department and the Treasury Board followed and in January 1970 the regulations were revised giving immediate effect to a 35% increase in the charges and providing for a further increase of 30% on April 1, 1970 and the adoption after March 31, 1971 of the charges set out in the provincial dental association fee schedules.

However, on February 18, 1970 the Prime Minister advised the House of Commons that, because of inflationary pressures, the Government intended to forgo the introduction of new and increased fees. The Department was subsequently advised by the Treasury Board that in accordance with this policy the proposed increase of 30% in charges for dental services on April 1, 1970 had been cancelled.

In December 1970, the Government eased its voluntary price restraint and the Treasury Board authorized a limited number of increases in fees and charges for Government services but generally reaffirmed the continued application of restraints to all departments and agencies. The Board did indicate, however, that it was prepared to consider submissions for increases where the reasons were particularly good.

The charges levied by the Department in respect of dental services provided to dependants and other civilians during 1970-71 amounted to $129,000. In April 1971, the Department estimated that adoption of the Ontario fee schedule would result in an increase of 130% in recoveries while adoption of the Alberta fee schedule would result in an increase of 68% in recoveries. However, no proposal to implement an increase has been submitted for consideration by the Treasury Board and dependants of service personnel and other civilians continue to benefit from the Department's subsidization of this service.

103. *Canadian Forces Exchange System.* In June 1969 the Treasury Board approved the following main guiding principles with respect to public support of facilities such as messes, recreational facilities and sales outlets operated by the Department of National Defence:

1. A reasonable level of goods, services and recreational facilities should be available to Canadian Forces personnel in their areas of service. Where those levels are inadequate, the Depart-

ment's responsibility as an employer, to ensure their availability where practicable and desirable, may be discharged through a system of non-public fund organizations.

2. The operation of a Canadian Forces Exchange System and the associated non-public fund organizations may be supported from within the departmental resources of personnel and property, including accommodation, and by the provision of transportation, communications and other services.
3. A portion of the revenues generated by the System may be applied to provide a reasonable level of recreational and community services.

The Canadian Forces Exchange System (CANEX) is a non-public fund organization which is responsible for the operation of sales outlets at Canadian Forces bases throughout Canada, aboard Canadian Forces ships and in Germany. Section 38 of the National Defence Act, *R.S., c. N-4,* provides that such an operation is not subject to the provisions of the Financial Administration Act and that:

> Non-public property accounts shall be audited as the Minister may from time to time direct.

The Auditor General does not audit the accounts of the Canadian Forces Exchange System or any non-public property accounts, with the exception of the national benevolent funds.

104. *Subsidization of non-public fund activities.* In paragraph 93 of our 1970 Report we referred to the subsidization by the Department of National Defence of non-public fund activities amounting to $10.7 million annually, to the Department's proposal to determine the cost of the subsidization at each Canadian Forces base and to a departmental policy calling for a reduction of approximately $5 million or 47% in its annual cost. Implementation of this proposal is planned over a three-year period, so that it will be fully effective in April 1973.

The Department undertook to report annually to the Treasury Board the extent to which non-public fund activities have been subsidized. However, as the required information is not yet complete, we are unable to ascertain the extent to which subsidization has been reduced.

We also noted last year that the extent to which recreational facilities should be provided from public funds was to be the subject of a separate study the results of which would also be submitted to the Treasury Board. This study has not yet been completed.

105. *Charges for Crown-owned accommodation.* In paragraph 94 of our 1970 Report we drew attention to the charge of 10 cents a square foot per month for space provided by the Department of National Defence to civilian concessionaires under leave and licence agreements for the operation of grocery stores, snack bars, barber shops, credit unions, etc. for the benefit and convenience of service personnel at defence establishments. We noted that the charge had been established in 1960 and that it was less than that applicable for space in excess of authorized scales which is used for non-public fund activities such as messes and sales outlets. The Department was reviewing the matter.

In paragraph 104 of this Report we refer to the Department's proposals for identification of the extent of subsidization of non-public fund activities and for a reduction of approximately $5 million or 47% in its annual cost. Implementation of these proposals included, with effect from April 1, 1970, the transfer to the non-public fund organization at each base of responsibility for the control of civilian concessions such as grocery stores, snack bars and barber shops operating as part of or in conjunction with non-public fund resale activities, together with the associated rental revenue. Any space provided for such concessions is now included in the determination of the total space provided for non-public fund resale activities with charges for space in excess of authorized scales at $1.37 per square foot per annum being paid to the Crown by the non-public fund organizations. However, rental charges for certain other civilian lessees, mainly banks and credit unions, continued at 10 cents a square foot per month payable directly to the Crown. We have now been advised that these leases are being renegotiated with a view to charging economic rentals. The implementation of revised rental charges is expected to be complete by March 31, 1972.

106. *Unauthorized use of Crown-owned vehicle.* In past Reports attention has been drawn to a number of accidents in which National Defence vehicles were involved while being driven without authority. Costs borne by the Crown in settlement of third party claims have been substantial. A case noted during the year involved a serviceman on a training exercise in Jamaica who, while using a departmental vehicle without authority, collided with a privately-owned automobile injuring the five occupants, two of whom died as a result of the accident.

The serviceman was tried by a general court martial on five charges of criminal negligence and one of unauthorized use of a vehicle of the Canadian Forces. Evidence at the trial disclosed that he was under the influence of alcohol and driving on the wrong side of the road at the time of the accident. He pleaded guilty to unauthorized use of the vehicle, was found guilty on the criminal negligence charges and was sentenced to imprisonment for six years. Also, as required by service regulations, he was reduced in rank from corporal to private. The sentence was reduced in September 1970 to detention for two years less one day and was suspended in March 1971 when the serviceman returned to duty after serving thirteen months imprisonment.

In settlement of claims submitted by the injured parties, the Department paid a total of $53,000 on an *ex gratia* basis. Of the total, $3,000 was paid in 1969-70 and two settlements totalling $50,000 were made in 1970-71 and are reported on page 30.18 of Volume II of the Public Accounts. In addition, expenditures amounting to $11,000 were incurred for investigation services and $13,000 was paid for fees, travel and other expenses of persons required to be present at the court martial in Jamaica. Not included in these expenditures are return transportation charges for service personnel who travelled between Canada and Jamaica on Armed Forces special service flights, and the pre-accident value, $154, of the departmental vehicle which was damaged beyond economical repair.

The Canadian Forces Administrative Orders, issued under the authority of the National Defence Act, *R.S., c. N-4,* state that personnel are subject to disciplinary action for making or ordering unauthorized use of motor transport and vehicle operators may be held personally liable for charges and damages, including those suffered by a third party. No attempt was made to recover from the serviceman any portion of the *ex gratia* payments or other charges.

In our 1963 Report (page 38) we noted that the Department, following consideration of a similar case reported by us in the previous year, had considered the question of instituting recovery action against offenders. A departmental memorandum in August 1963 reporting on the result of this consideration put forward the view that since payments in respect of claims by third parties are made on an *ex gratia* basis in cases where accidents occur during the unauthorized use of departmental vehicles, regulations for recovery in such cases would not be justified, it being stated that "in view of the extremely limited applications for recovery by the Crown it does appear that there would be difficulty in justifying a departure from the common law position that the person who makes an *ex gratia* payment where there is no legal liability on him to do so gains no right of action for recovery from the person whose actions gave rise to the claim". There has been no change in the Department's position in this regard.

107. *Prolonged development of the Canadian Forces pay system.* In paragraph 90 of our 1970 Report we drew attention to the development by the Department of National Defence of a new Central Computational Pay System to replace the three separate pay systems which were in use for the members of the Canadian Forces prior to integration. We noted that the new system was still in a developmental posture and that the prolonged development period had resulted in substantial escalation of development costs. We also stated that, for the time being, a weakening of internal control had occurred. In a request to the Treasury Board in October 1965 the Department stated that among other benefits it expected annual savings of $800,000 in administrative costs once the computerized pay system was fully operational. The development costs for the proposed system were estimated at $755,000. The new system was to be introduced in two phases: in Phase I, which began on July 1, 1967, the records maintained in Ottawa for control and audit purposes were replaced; and in Phase II, which had been expected to begin on July 1, 1968, the pay records maintained for each member at his unit were to be eliminated.

At March 31, 1971 implementation of Phase II continued to be delayed causing further escalation of development costs. The Department's accounts do not provide a record of the cost of development; however, the overall cost of the Central Computational Pay System amounted to about $8.8 million for the period July 1967 to March 1971. While the separate records maintained at Ottawa for control and audit purposes and for the accumulation of pension and income tax data have been discontinued at a saving of about $2 million in this period, the new system has not yet replaced these records effectively. Departmental statistics for April 1971 dis-

closed that 12% of the individual pay accounts in Ottawa showed amounts for net monthly pay entitlement that were different from the amounts shown in the accounts at the units. The comparative percentage in October 1970 was 12% but by June 1971 it had been reduced to 8%. A test examination of the 10,000 differences in individual pay accounts which existed at April 1, 1971 disclosed that 15% were a direct result of Central Computational Pay System errors; the comparative percentage in July 1970 was 21%. These differences show that the system continues to be in a developmental posture and does not yet produce accurate data or provide complete control over payments to members of the Canadian Forces by the local units.

In September 1971 the Department completed Phase II of the conversion of pay records of all headquarters personnel, about 3,000 in all, but no date has been set for the overall completion of this Phase.

It is apparent that the anticipated savings in administrative costs have not materialized in 1968, 1969, 1970 or 1971.

108. *Special services provided by the Department of National Defence.* The Department of National Defence is continually called on to provide a variety of special services. In our 1970 Report (paragraph 96) we referred to the failure of the Department to recover the cost of providing some of these services with the result that its appropriations were being applied to purposes not authorized by Parliament.

One of the sub-objectives of the Defence Services Program stated in the Estimates is "To preserve sovereignty over and ensure security within the territorial limits of Canada and to supplement the civil authorities and contribute to national development". The National Defence Act, *R.S., c. N-4,* provides for the use of the Canadian Forces to aid civil powers in civil emergencies, the cost incurred being the responsibility of the province that requests aid. The Act does not deal specifically with other circumstances in which assistance is given to persons or organizations, but general authority is implied in the text of National Defence Vote 1 where the Department is authorized to make recoverable advances and to spend revenue received in respect of charges for supplies and services.

We also referred last year to the National Defence Provision of Services Regulations, Order in Council P.C. 1962-13/653 of May 2, 1962, under which the Department may authorize the provision of special services for which a fee shall be charged with certain specified exceptions. We also noted that although the Regulations Act, *R.S., c. R-5,* requires that every regulation be published in the *Canada Gazette* within thirty days after it is made, the National Defence Provision of Services Regulations had never been published. In November 1971 we were informed by the Department that new regulations were being drafted and that it was hoped that these would be approved in the near future and subsequently published.

The present Regulations do not apply to services of a continuing nature costing in excess of $25,000 per annum or, except in an emergency, where the service in any

one instance costs in excess of $5,000. They stipulate that a fee shall be charged in all cases unless the Minister is satisfied that the service provided is of a temporary and non-recurring nature and is:

(a) for the benefit of, or in support of, the Canadian Forces or national defence;

(b) for community purposes of a non-commercial nature; or

(c) to provide humanitarian assistance in individual cases in the nature of mercy aid in the relief of human distress or suffering.

Under the Regulations the fee for providing any service, unless set by any other Act or regulation, is to be the equivalent commercial rate or if that cannot be readily determined an amount equal to the cost to the Department as determined by the Minister plus ten per cent.

A 1958 Order in Council provides authority for the Minister of National Defence to levy charges for air transportation provided to other government departments and agencies as follows:

Details	Charges
(a) for space provided on scheduled aircraft	two and one-half cents per passenger-nautical mile
(b) for special flights	aircraft operating costs

However, as indicated in our 1970 Report and in the following examples, there is considerable variation in the Department's recoveries from other government departments for airlift services provided. In some cases the full cost was recovered, in others half of the cost was recovered, and in others no part of the cost was recovered. We understand that the establishment of a common rate of charge to other government departments and agencies has been under review for some time by the Department of National Defence, the Department of Transport and the Executive but that this matter has not yet been resolved.

During the year additional instances were noted where it was not clear what authority was relied on for providing services without fee or recovery of cost.

1. In April 1970 at the request of the Department of Energy, Mines and Resources, a special flight was provided to transport from Ottawa to Valparaiso, Chile the replacement crew for that Department's vessel which was engaged in a major oceanographic project. The Minister of Energy, Mines and Resources and press representatives were also accommodated on this flight for which the Department of National Defence recovered $10,000, 50% of the aircraft operating costs.

2. In May 1970 a special flight was provided for the Prime Minister, accompanying officials and press representatives for the purpose of official visits to Australasian and South-East Asian countries and attendance at the 1970 World Exposition in Japan. The itinerary included visits to Honolulu, New Zealand, Australia, Malaysia, Singapore, Hong Kong and Japan and covered approximately 25,000 miles, over a period of three weeks. The Department recovered $29,000 from the press representatives.

3. In June and July 1970 a number of special flights were provided by the Department in connection with the Royal Tour. Relevant aircraft operating costs were determined by the Department to have been $87,000.

4. In August 1970 return transportation from Trenton to Sardinia was provided for the Prime Minister, the Trenton/Lahr portion by scheduled flight and the Lahr/Sardinia portion by special flight.
5. In September 1970 special flights were provided to the Prime Minister and official party between various locations in Eastern Quebec.
6. The wave of aircraft hijacking in Europe and the tense situation in the Middle East in 1970 prompted the Prime Minister's Office to suggest that it would be unwise for Ministers or senior officials to travel by commercial aircraft in the European area until the situation relaxed. Subsequently between September and December 1970 a number of special flights were provided by the Department for Ministers and senior officials. These flights utilized an aircraft based at Lahr and costs incurred amounted to $25,000.
7. During October and November 1970 departmental aircraft were scheduled to provide transportation for two tours in the North to enable representatives of accredited foreign missions to visit some of the remote areas in the Territories and view first hand some of the new activities and developments in those areas. Executive approval for these tours was obtained and the Department of National Defence recovered 50% of relevant aircraft operating costs from the Department of External Affairs and the Department of Indian Affairs and Northern Development, leaving $11,000 to be borne by its own appropriations.
8. In December 1970 a special flight was provided on a non-recoverable basis to carry the Ottawa Youth Symphony Orchestra from Ottawa to Newfoundland and return.
9. At the request of the Department of External Affairs, special flights were arranged for the transportation of Mr. J. R. Cross to England and his kidnappers to Cuba. The cost of these special flights to the Department of National Defence was $35,000.
10. In January 1971 a special flight between Ottawa and Singapore was provided for the Prime Minister, accompanying officials and press representatives for attendance at the Commonwealth Heads of Government Conference in Singapore. The itinerary included visits to Pakistan, India, Indonesia and Ceylon, and covered approximately 23,000 miles over a period of 24 days. The Department recovered $32,000 from the press representatives.
11. Three instances were noted where special flights had been provided by the Department to Members of Parliament to facilitate attendance at funerals of deceased Members and of a Member of a provincial legislature. These flights involved return transportation between Ottawa and Winnipeg and on two occasions between Ottawa and Montreal. Associated ground transportation was also provided.

We also noted that in 6 of the 16 cases referred to last year the Department was continuing to provide services. Another of the 16 cases referred to the transportation of salvaged aircraft parts for four World War II Japanese aircraft from New Guinea to Winnipeg, Man., in return for which the Department was promised one of the aircraft which was to be offered to the National Museum of Science and Technology. It is our understanding that this aircraft has not yet been delivered to the Department.

The Department is required to report semi-annually to the Treasury Board every service provided pursuant to the Regulations where no charge is made and the cost exceeds $1,000. With the exception of the flights referred to in item 7 which received prior approval of the Treasury Board, none of these services has been reported.

We reiterate our opinion that failure to recover the costs of providing these services has resulted in the appropriation being applied to purposes not authorized by Parliament.

109. *Assistance to provinces by the Canadian Forces in civil emergencies.* In previous Reports (paragraph 97 in 1970) we have drawn attention to amounts recoverable from provinces representing the costs of assistance provided to the provinces by the Canadian Forces in civil emergencies, primarily forest fires. The accounts referred to, which still remain unsettled, are:

Newfoundland	1961	$ 410,000	
	1967	221,000	
			$ 631,000
Nova Scotia	1958	17,000	
	1960	60,000	
			77,000
Saskatchewan	1969		45,000
Prince Edward Island	1960		43,000
British Columbia	1965		20,000
			$ 816,000

Some of these unpaid accounts were referred to by the Public Accounts Committee in its Sixth Report 1964-65 where it noted that as the Department had not been successful in collecting the accounts they had been referred to the Executive for direction but that such direction had not been received. The Committee asked the Auditor General to inform it of the final outcome of these matters (see Appendix 1, item 3).

The Committee again referred to these unpaid accounts in its Fifth Report 1968-69 expressing the view that they should be settled in view of the agreements to pay, or some agreement should be reached for a sharing of the costs. The Committee suggested that the item be included on the agenda of a future federal-provincial conference for clarification. In December 1968 the Department of National Defence forwarded particulars of each account then outstanding to the Federal- Provincial Relations Secretariat of the Privy Council Office, seeking its assistance in resolving the difficulties. There was nothing further to report when the Committee again considered this matter in April 1970 and there were expressions of concern that the accounts were still outstanding.

In each case the costs remain a charge to appropriations which had not been provided by Parliament for these purposes. The assistance was provided under emergency conditions on the written undertaking of each Province to reimburse the Federal Government for any costs incurred by it.

The Minister of National Defence indicated to the House in September 1971 that the Executive would shortly deal with the arrears of the five Provinces.

The provisions of Part XI of the National Defence Act, *R.S., c. N-4,* with respect to aid to civil powers state in part:

> 235. In any case where a riot or disturbance occurs . . . the attorney general of the province . . . may by requisition in writing addressed to the Chief of the Defence Staff require the Canadian Forces, . . . to be called out on service in aid of the civil power.

> 242. Such moneys as are required to meet the expenses and costs occasioned by the calling out of the Canadian Forces as provided for in this Part and for the services rendered by them shall, pending payment by the province . . . be advanced in the first instance out of the Consolidated Revenue Fund by the authority of the Governor in Council, but are payable by and recoverable from the province to and by Her Majesty as moneys paid by Her Majesty to and for the use of the province at the request of the province.

On October 15, 1970 a requisition under these provisions was received from the Province of Quebec for the assistance of the Canadian Forces to strengthen civil power in the likely event of a disturbance in the Province. The Province agreed to pay the costs incurred in rendering this assistance. Elements of the Canadian Forces were immediately called out for service in the Province and continued there until January 4, 1971 at a cost to the Department of $2,909,000 exclusive of military pay and allowances, normal civilian salaries and other normal operating costs.

The Prime Minister advised the House of Commons in October 1971 that following consideration by the Cabinet of the circumstances in which the War Measures Act, *R.S., c. W-2,* was invoked, it was not intended to require payment by the Province of Quebec of the expenses incurred.

110. *Assistance provided by the Canadian Forces in the control and clean-up of oil pollution.* During 1970 the Department of National Defence was requested to participate in the clean-up of oil pollution attributable to the sinking of the oil tanker *Arrow* in Chedabucto Bay and the oil barge *Irving Whale* in the Gulf of St. Lawrence. In providing these services the Department incurred costs totalling $1,346,000 of which $384,000 was recovered from the Department of Transport, leaving $962,000 as a charge to National Defence appropriations.

When the *Arrow* struck Cerberus Rock in Chedabucto Bay in February 1970, a federal task force co-ordinated by the Department of Transport was organized to stop the seepage of oil from the vessel's tanks and to clean up over two million gallons of oil which had spilled into the Bay. (See paragraph 200 of this Report.) The clean-up operation was completed in July 1970 and in November 1970 the Department submitted to the Department of Transport a final summary of its costs amounting to $1,147,000 incurred in providing this assistance. This summary had been prepared at the request of the Department of Transport for inclusion in a consolidated claim against the owners of the *Arrow.* The costs comprised out-of-pocket expenses of $528,000 determined in accordance with the same costing principles followed when billing provincial authorities for assistance rendered in cases of civil emergencies, and $619,000 for military pay and allowances and administrative charges.

The *Irving Whale* was carrying a cargo in excess of one million gallons of bunker oil when it sank in the Gulf of St. Lawrence in September 1970 and the Department of Transport requested the Department of National Defence to assist in the control and clean-up of oil seepage. The overall costs of providing this assistance amounted to $199,000 including out-of-pocket expenses of $144,000. In April 1971 the Department submitted particulars of these costs to the Department of Transport and to the

Department of Justice together with a request that the latter Department establish whether the Crown had a valid claim against the owners of the *Irving Whale*. The Department of Justice has not yet rendered an opinion on this matter and no recovery has been effected. (See paragraph 199 of this Report.)

111. *Delay in submitting invoices for recoverable costs.* Certain communication facilities of the Department of National Defence are made available to the United States Air Force under various agreements which provide for sharing the costs of the facilities between the Governments of the United States and Canada. The normal practice of the Department under one of the agreements has been to submit invoices to the United States Air Force for recovery of costs on a monthly basis, and under another agreement on a quarterly basis in advance using estimated costs.

However, monthly billings for December 1969, January 1970 and February 1970, totalling $3.9 million, were not prepared and submitted until April 1970 and the billing for the quarter ended March 31, 1970, totalling $2.5 million, which would normally have been submitted in January 1970 on the estimated basis was not submitted until April. Billings in advance on this basis were resumed in April 1970 and thus, during the year ended March 31, 1971, the Department submitted billings for, and recovered the costs applicable to, a 15-month period.

Delay by a department in the submission of invoices for recoveries to appropriations in this manner could be used to defer such recoveries until the following year thereby circumventing the parliamentary control provided by the lapsing provisions of section 30 of the Financial Administration Act.

112. *Cost of delay in submitting invoices for recoverable costs.* In paragraph 111 we refer to delay by the Department of National Defence in submitting invoices for costs recoverable from the United States Air Force and to the possibility that delays of this nature might be used to circumvent the parliamentary control provided by the lapsing provisions of section 30 of the Financial Administration Act.

The delay in submitting invoices totalling $6.4 million resulted in a corresponding delay in receipt of payment. This in turn led to a reduction in cash balances on deposit to the credit of the Crown and in the interest earned thereon.

We estimate the loss of interest in this case at $60,000. Departmental officials do not agree that any interest was lost contending that by virtue of an informal arrangement with the United States authorities to submit invoices in advance rather than in arrears, the Department saved about $80,000 in interest in 1970-71. We do not share this view since the fact remains that these invoices in 1970-71 were actually submitted so much later than the informal arrangement contemplated that interest which would have been earned under that arrangement was lost.

113. *Failure to charge for use of sewage disposal system.* In 1952 the Crown acquired all lands and buildings owned by a major aircraft manufacturing company at Downsview Airport in Toronto. As consideration the Crown paid $5 million and granted to the company a certain parcel of land within the Airport on condition that

within two years the company would construct on this land buildings and facilities for the manufacture and repair of aircraft. The covering agreement provided that the company be permitted to connect the proposed premises to the Crown's sewage disposal system serving the Airport. Charges for the use of the system would be at a rate to be negotiated between the Department of National Defence and the company. The new buildings and facilities were constructed but, due to an oversight, a rate for sewage disposal service was not negotiated and no charges have ever been made.

The oversight came to the Department's attention in 1969 and it has estimated that the charges for the years 1954 to 1967 inclusive would amount to $102,000. This estimate does not include an annual amortization charge of $4,400 based on the cost of the sewage treatment plant or the usual ten per cent administrative charge. Had these items been included, the estimate would have amounted to $180,000.

During ensuing negotiations the company took the position that assessment of a charge of $102,000 for the period 1954 to 1967 would be punitive in nature, but it agreed to pay 50 per cent in equal instalments over a period of five years, free of interest. The company also agreed to accept charges for the years 1968 and 1969 of $8,500 and $9,150 which represent the company's share of sewage treatment plant operating costs exclusive of amortization and administrative charges. The company further agreed to a charge of $15,000 for 1970 which includes all costs attributable to the use of the facilities by the company. Although the Treasury Board authorized the Department in December 1970 to enter into an agreement with the company on these terms, the agreement has not yet been signed.

If the agreement is concluded as proposed, the loss to the Crown resulting from the delay in determining a charge for the use of the sewage disposal system will be an estimated $142,000. In the meantime no payment has been received.

114. *Champ de Mars property, Montreal, Que.* In our 1967 Report (page 50) we described difficulties encountered by the Department of National Defence when the Province of Quebec expropriated part of the Craig Street armoury site in Montreal which the City was in process of transferring to the Department in exchange for an equal area (1.5 acres) of the Department's Champ de Mars property. In October 1971 the Department, by letters patent, quit-claimed its interest in the Craig Street property thereby relinquishing its ownership of the armoury to the City of Montreal without compensation in accordance with the terms of the agreement with the City signed in 1882.

The Champ de Mars property (4.2 acres valued at $4.2 million in 1967) has been under lease from the Crown to the City since 1889 at a rental of $1 per annum, and since 1925 it has been used as a parking lot. It is apparent that the Department has lost substantial revenue over the years because it has not charged an economic rent for use of the property. A similar case was dealt with in paragraph 101 of our 1970 Report.

In January 1971 the Public Accounts Committee was advised that Crown Assets Disposal Corporation would be asked to dispose of the entire property. However, the Department has not yet declared it surplus.

115. *Costs incurred due to delays in closing Canadian Forces Stations.* In 1967 the Department of National Defence began a program to improve, modernize and consolidate certain of its operations. Two areas of activity were Gander, Nfld., and Masset, B.C.

At Gander, an operations building was scheduled for completion in October 1969 with concurrent phasing out of CFS Coverdale, N.B., and transfer of personnel to Gander. In September 1968 the Department determined that a number of residences would be required to accommodate personnel at Gander but it was not until July 1970 that the final decision to construct 60 houses at a cost of $1.6 million received approval. By September 1970 the operations facilities at Gander costing $11 million were ready for use but, due to lack of housing, certain equipment and personnel were retained at CFS Coverdale until July 1971. Costs estimated by the Department at $143,000 to maintain CFS Coverdale during this 10-month period are considered to be non-productive because similar costs were also being incurred concurrently at the Gander facilities.

At Masset, 179 residences and related administration buildings were scheduled for completion in December 1970 but at that date only 35 houses and one related building had been accepted. Because this project was approximately one year late, the Department could not fully utilize the operations facilities costing $11 million and consequently was required to maintain both CFS Masset and CFS Ladner, B.C., to September 1971 at additional cost estimated by the Department to be $457,000.

The identified non-productive costs incurred due to delays in closing these Stations because of the lack of housing are $600,000.

116. *Canadian Forces Base Summerside, P.E.I.* Late in 1969 the Department of National Defence concluded that with the phase-out of the Neptune maritime patrol aircraft, the remaining operational activities at CFB Summerside should be transferred to other Canadian Forces bases and that CFB Summerside could be closed in 1970, resulting in an annual saving in excess of $6 million.

The impact of the closing of the Base on the economy of Prince Edward Island was well understood and when the Department requested permission to proceed with the closure this was not forthcoming. The Department then pointed out that if it were required to continue operation of the Base, it would either have to be reimbursed for the additional cost involved or its budgetary ceiling would have to be increased.

The Treasury Board did not accept the proposal that the Department be reimbursed for the additional costs but in recognition of these costs, it did increase the budgetary ceiling in the Department's estimates for 1971-72.

The matter is referred to because, to the extent that additional costs were incurred in keeping the Base open over the costs that were necessary for the fulfilment of the function of the Department of National Defence, the appropriations of that Department have been applied to a purpose not authorized by Parliament.

117. *Cost of delays in implementing repair and overhaul procedures.* The objective of the Defence Services Program of the Department of National Defence is to ensure the security of Canada and to contribute to the maintenance of world peace. The activities within this Program include North American security, the overall annual cost of this activity being in excess of $200 million. The Minister's 1971 White Paper *Defence in the 70's* shows the role of the CF101 Voodoo aircraft in achieving North American security by defending against bomber attack.

A deficiency in the engines caused the Department, in March 1971, to restrict the use of the CF101 to mandatory operational flights in support of North American Air Defence Command. In February 1968 the Department of National Defence had been advised of the deficiency and consequent revisions that the United States Air Force had made in its specifications for the repair and overhaul of the same type of engine

However, implementation by the Department of National Defence, the Department of Supply and Services and the contractor of the overhaul procedures called for by the revised United States specifications did not begin until 1970-71 when costs of $24,500 were charged to National Defence Vote 5. Further costs of $364,000 are expected to be incurred in 1971-72 of which $129,000 will be accounted for by increases in prices between 1969-70 and 1971-72. In addition one aircraft with a replacement value of $900,000 has been lost as a direct result of the engine deficiency. In order to increase the number of engines available for operational aircraft, extraordinary costs of $30,000 have since been incurred for special engine handling at a United States contractor's plant.

118. *Inadequate control over supply items.* Supply items for the Canadian Forces are held at regional supply depots across Canada. Centralized inventory records are maintained at Ottawa in a computer system which was first introduced as part of the RCAF supply system in 1960 and was expanded between 1967 and 1971 to include the inventories of the integrated Canadian Forces. The computer system controls issue of supply items and provides information to assist logistics staff in the procurement of material. In addition the computer performs a cataloguing function and, by recording and analysing equipment failures, provides maintenance-engineering information on which technical decisions are based. Since the proper functioning of the supply system is dependent upon computer-produced information, a high degree of reliability in the computer system is desirable.

A report issued in July 1969 by the Director of Operational Audit of the Department of National Defence pointed out a serious lack of internal control over

supply system data and computer programs and recommended changes in procedures to bring internal control up to an acceptable level.

In the present system, loss of records or incorrect stock balances may go undetected indefinitely because of inadequate control procedures. There are no controls to ensure that all information concerning movements of supplies enters computer processing accurately, and the quantities shown on computer records are not verified on a systematic basis by a physical count of supply items. In a review of a computer listing of stock balances at March 31, 1970 we noted 21 balances which appeared abnormally high. It was subsequently disclosed that the quantity shown in the central computer records for each of these items was exactly 150,000 more than the actual number in stock. Such inaccuracies may result in failure to procure required supplies and, conversely, undetected understatements of quantities may result in the procurement of supplies that are not required. We have been unable to establish how these errors occurred or how they were corrected. Errors in quantity balances should be disclosed when a supply depot is closed or its holdings of certain items are transferred to other depots. However, in practice, as soon as it is learned that no stock remains at a supply depot, any remaining computer system balances are adjusted to nil and no investigation of or authorization to adjust any discrepancy is required. If discrepancies were reported by computer and investigated, they might shed light on deficiencies in the computer system and serve as a check on the stock records maintained at the supply depot.

The lack of internal control over computer programs concerns deficiencies in the documentation of computer programs and procedures. Adequate documentation, consisting of detailed system and computer program diagrams, narrative explanations, detailed computer operating procedures and print-outs of computer programs is desirable for any computer system since it is the most effective tool for detecting system or procedural weaknesses and for error analysis by programmers, analysts, managers and auditors. The Department's documentation consists almost solely of print-outs of computer programs and there is a resulting inefficient use of computer personnel. The effects of this deficiency are felt most acutely when a programmer leaves since usually only one programmer is responsible for each computer program.

The Logistics Branch, which is responsible for the supply system, has indicated that a continuing shortage of staff is a key factor in its failure to implement improvements in internal control, and that certain controls were omitted originally because of the limitations of the equipment used prior to 1971. In that year the Department of National Defence spent approximately $100,000 to have the supply system computer programs converted for use on more modern equipment, but the desired controls were not introduced during the conversion. The Branch is now of the opinion that the recommended changes would not be worthwhile since the current system is to be replaced by a new integrated logistics system in 1974. Failure to improve controls in the existing system will result in continuing unreliability of computer processed data.

119. *Inadequate control over Accountable Advances to aircraft repair and overhaul contractors for purchase of spare parts.* In previous Reports (paragraph 98 in 1970) we referred to the policy of the Department of National Defence of contracting with industrial concerns, through the Department of Supply and Services, for the major overhaul, modification, etc., of equipment, and to the practice of providing assistance to the contractors in financing the necessary spare-parts inventories by means of Accountable Advances. Following our recommendation that the role of the Departments relative to these inventories be clarified, the Department of National Defence in November 1969 accepted responsibility for maintaining surveillance over the contractors' inventory management methods, procedures and procurement. A revised specification was also promulgated for incorporation into all new contracts for the acquisition of Accountable Advance spares and into all continuing contracts following a joint review, contractor by contractor, of existing Accountable Advance inventories, made with a view to reducing such inventories to a realistic level.

The review, which commenced in 1970, involves inventories of about $27 million held by 39 contractors and is expected to be completed during 1971-72. One-half of these inventories is expected to be surplus to the requirements of the contractors, although some portion of this surplus will be required for Service inventories. To June 30, 1971 the cost of material identified as surplus amounted to $2,381,000 of which material costing $1,100,000 had been disposed of through Crown Assets Disposal Corporation for $5,632.

The revised specification stipulates the conditions and outlines the contractor's responsibilities with regard to the provisioning and reprovisioning of spares. Spares not procured in accordance with these conditions are to be the contractor's responsibility. Although the former specification was silent on this matter, we understand that the Department of Supply and Services in its administration of that specification subscribed to the same general policy. Nevertheless, the intention appears to be that the Crown will bear the full loss on disposal of spares identified as surplus to overall requirements during the present inventory review.

We visited one contractor whose Accountable Advance inventory holdings included surpluses costing $1.2 million, of which holdings costing $343,000 had been sold by June 30, 1971 for $956. Our examination was restricted because inventory bin cards were all that remained of the accounting and inventory records for the period prior to 1966. However, from our examination of these records we concluded that most of the surplus inventory was accumulated prior to 1960. Correspondence retained by the contractor shows that he advised the Department of Supply and Services in 1959 that $550,000 of his present surplus inventory was surplus to his requirements even then. We understand that a factor contributing to the surplus was that when half of certain repair and overhaul work previously done by this contractor was transferred to another contractor in 1956, transfers of the associated spare-parts inventories were negligible.

Taking into account these circumstances and the time that has elapsed since these inventories became surplus, it is not surprising that the Crown finds it difficult to establish that contractors should bear part of the loss on their disposal.

120. *Irregular payment to aircraft manufacturer.* In previous Reports (paragraph 99 in 1970) we have noted instances where the Department of National Defence has made advance payments under contracts in amounts that could not be justified by accumulated costs, goods received or services rendered. It appeared that this had been done to circumvent the parliamentary control over appropriations provided for by section 30 of the Financial Administration Act.

In its Fifth Report 1968-69, presented to the House on June 26, 1969, the Public Accounts Committee expressed disapproval of the circumventing of the lapsing provisions of this section of the Financial Administration Act and recommended that the Treasury Board instruct departments not to contract themselves into obligations to make advance payments in order to avoid the lapsing of any portion of an appropriation. This recommendation has not yet been implemented. (See Appendix 1, item 26.)

During the year an advance payment was made to a contractor in circumstances which were almost identical with those related in one of the cases referred to on page 48 of our 1967 Report which gave rise to the expression of disapproval by the Public Accounts Committee.

In December 1970 the Treasury Board approved the acquisition by the Department of eight utility aircraft and associated materiel. Following negotiation by the Department of Supply and Services with the contractor to establish firm prices, the Treasury Board authorized entry into a contract on March 18, 1971. This authority provided for firm unit prices for the aircraft and a firm lot price for the installation of aviation electronic equipment to be supplied by the Crown. No authorization was given for progress or advance payments.

On March 23, 1971 before a contract was drawn the Department of National Defence paid the manufacturer \$4.2 million of the total purchase price of \$4.5 million for the eight aircraft.

A contract document dated March 25, 1971, which incidentally made no reference to progress payments, was submitted for acceptance and signed by the manufacturer on April 16, 1971, but as his acceptance was subject to certain conditions which have not yet been accepted by the Crown, there is still no formal contract. We have learned from the Department of National Defence that construction of the aircraft was completed to the baseline specification in March 1971, but without the necessary aviation electronic installations. These required additional engineering and flight tests and the aircraft were delivered to the Canadian Forces between June and November 1971.

Thus, the payment of $4.2 million was made from National Defence Vote 10 contrary to section 27 of the Financial Administration Act which provides that no payment shall be made unless the Minister certifies

> where a payment is to be made before the completion of the work, delivery of the goods or rendering of the service, as the case may be, that the payment is in accordance with the contract.

Paragraph 181 of this Report deals with other payments totalling $2.2 million to the same contractor under somewhat similar circumstances.

121. *Hydrofoil development program.* In previous Reports (paragraph 104 in 1970) we have outlined the progress and some of the problems encountered in developing the hydrofoil. Expenditure to May 31, 1971 totalled $51.1 million of the $52.2 million approved by the Treasury Board. Included in this expenditure was $444,000 required to replace a foil which cracked during trials in mid-1969, the replacement being completed in September 1970.

In last year's Report we indicated that the Department of Supply and Services was considering the extent to which the contractor might be held liable for costs incurred in replacing the foil. The matter was referred to the departmental legal adviser in January 1970, just four months prior to the expiry of the warranty period of 12 months prescribed in the contract. Notwithstanding this, at no time was the contractor given notice as required by the contract that a warranty claim was being considered. There was a delay of 17 months before the Department received in June 1971 the legal opinion requested which was to the effect that the Crown would have to prove faulty workmanship on the part of the contractor in order to sustain a claim under the warranty provisions of the contract and for this contention the available proof was not conclusive. The Department then concluded that it had no claim against the contractor.

In October 1971 the Treasury Board approved an increase of $1 million to $53.2 million in the cost of the program, to place and maintain the hydrofoil in a state of preservation from which it may be reactivated within the next five years. On November 2, 1971 the Minister of National Defence announced in the House of Commons that the Department had decided to lay up the hydrofoil *Bras d'Or* for a five-year period because a reassessment of requirements had scaled down its priority. He went on to state that research into hydrofoils will be continued by the Department, and that the *Bras d'Or* could be reactivated at any time should circumstances alter.

122. *DDH 280 destroyer procurement program* . In our 1970 Report (paragraph 105) we referred to the increase from $150 million in 1965 to $252 million in 1970 in the estimated cost of four destroyers. The increase was attributed to a change from steam to gas turbines in the main propulsion system; the complexity of new armament, control and propulsion systems; delays in their final design, which

affected working drawings for the ships; and misunderstanding of contractual responsibility related to the design of the ships and the production of working drawings which resulted in claims in excess of $10 million for delays in construction in the two shipyards involved.

Effective April 1, 1971 drawings are being supplied by the Crown. In September 1971 the firm-price contract with the lead yard was amended to $50 million to provide $17.7 million for changes in the scope of the work, for delay and disruption experienced to March 31, 1971 and for anticipated escalation in the cost of material and labour to the date of delivery of the last ship in December 1972. The target-incentive contract with the follow yard was also increased by $17.5 million to provide for changes in the scope of the work, for delay and disruption experienced to August 31, 1971 and for anticipated escalation in the cost of material and labour to the date of delivery of the last ship in June 1973. The Department of National Defence expects that present contingency allowances will be sufficient to permit completion of the ships within the budget of $252 million. Expenditure to October 31, 1971 totalled $171 million.

As noted in our 1970 Report, there will be additional costs estimated at $53.5 million for ships' helicopters, working drawings, missile system development, life-time spares and ammunition, together with spares costing $4 million required for initial support of the ships which are normally included in determination of capital costs of this nature.

123. *Construction of operational support ships.* In March 1965, the Treasury Board authorized the Department of National Defence to proceed with a program for the construction of two operational support ships with hull form and tonnage similar to that of H.M.C.S. *Provider* (see page 80 of our 1969 Report).

In December 1966, with the approval of the Treasury Board, the Department of Supply and Services entered into a contract with the lower bidder in the amount of $47.6 million. During the construction period this contract was amended 13 times because of labour cost escalation and numerous design changes, increasing the contract price to $53.6 million of which $53.2 million had been expended to August 31, 1971.

An additional $5.3 million has been expended on the program for spares and government-furnished equipment bringing total expenditures to $58.5 million. Not included in these figures or in the 1966 estimate of $56.7 million is the expenditure of $3 million for the procurement of a missile system estimated to cost $5.5 million excluding the cost of installation.

The first ship, H.M.C.S. *Protecteur,* was delivered on schedule in August 1969 while the second, H.M.C.S. *Preserver,* was delivered in August 1970, six months late.

In January 1971, the contractor submitted a claim of $9.8 million for extra costs, including $4.6 million attributed to delays caused by the Crown. Following initial

rejection by the Department of Supply and Services, the claim is being given further consideration at the request of the contractor.

124. *Cost of the CF5 aircraft procurement program.* In last year's Report (paragraph 106) we drew attention to the cost of procurement of 115 Canadian-built tactical support aircraft. We pointed out that at March 31, 1970, when 47 of the aircraft had been delivered, expenditure on the $215 million program had amounted to $202 million, and that, of the 96 aircraft delivered to December 31, 1970, 35 had had no specific role assigned to them and had been placed in storage. We also pointed out that the major contractor in the program, whose target-incentive contract for aircraft production was $94 million, had requested an additional $25 million to offset cost increases for which he considered the Crown responsible.

To March 31, 1971, the Department of National Defence had accepted delivery of 110 aircraft and expenditure totalled $207 million, and by October 1971 all the aircraft had been delivered and expenditure totalled $209 million. Total forecast program expenditure remains at $215 million including $2 million for engineering changes included in the additional $25 million claimed by the aircraft production contractor. However, no allowance has been made for increases should the Crown accept responsibility for all or part of the remaining $23 million. Although no agreement has been reached on a settlement, the Crown has provided the contractor with a loan of $15 million from the Defence Production Revolving Fund. The loan was originally repayable by June 15, 1971 but was amended on that date to provide for repayment in four instalments with the balance due December 31, 1971. While instalments of $6.8 million to November 30, 1971 were paid as agreed, the contractor is in default on his final payment of $8.2 million.

The CF5's are in two basic configurations, a single-seat version designated the CF5A and a two-seat dual-control trainer version designated the CF5D. The present Forces inventory consists of 85 CF5A's and 25 CF5D's, of which 61 are in storage. Current plans call for the CF5 to be used eventually as an advanced trainer replacing the T33 Shooting Star aircraft.

While the CF5's were still on the production line, the Department of National Defence first considered using them as replacement trainers and obtained an estimate in May 1969 of $5.5 million for conversion of 15 CF5A's to CF5D's or dual-control trainers, but the conversion was not proceeded with. In December 1971 Canada entered into an agreement for the sale to another country of 16 CF5A's, 4 CF5D's and related equipment. The Department will supply 18 of the aircraft from its inventory and will replace them from a new contract for 20 CF5D's currently being negotiated with the aircraft producer. The net cost of this arrangement to the Department is expected to be about $10.5 million which is $5 million more than had the conversion been proceeded with in 1969.

125. *Additional costs due to changes in planning.* In September 1967 the Department of National Defence recognized a requirement for 654 altitude computer

indicators for installation in Canadian Forces aircraft. Prior to entry into a contract the quantity was reduced by 75 units pending a further review of the total requirement by the Department. In November 1967 the Department of Supply and Services entered into a contract for 579 at a unit price of $3,934 and in December the original quantity of 654 was confirmed as being necessary and the contract was amended to provide the additional units at the same unit price.

By July 1969 the Department determined that under its new Force structure fewer aircraft would be flown and in August the contractor was instructed to reduce the quantity to 481 units. In January 1970, negotiations with the contractor resulted in his receiving an increase to $4,258 per unit reflecting his cost of manufacturing a lesser quantity.

Subsequent to another review of the Force structure in February 1970, the Department of Supply and Services was requested to procure an additional 89 units bringing the quantity under contract to 570. The contract was increased in March 1971 for these additional units at a unit price of $4,533. At that date 373 units had been delivered and payments amounted to $1,500,000.

The present total contract price for 570 units is $2,451,000, an increase of $173,000 over the price at which the Crown originally contracted to purchase 579 units.

126. *Renegotiation of a late-delivery clause.* In paragraph 125 of this Report we comment on the additional costs incurred on a contract for altitude computer indicators due to changes in planning by the Department of National Defence. A clause of this contract and other contracts with the same contractor for similar equipment provides for a late-delivery penalty as follows:

> If the Contractor fails to meet the delivery date or the respective dates provided for in this contract, Her Majesty will suffer loss, the dollar value of which will be difficult to ascertain. The parties, therefore, hereby agree upon the amount of liquidated damages which the Contractor shall pay to Her Majesty in the event of failure by the Contractor to deliver the goods or portions of the goods on the delivery date or respective delivery dates, provided for in the contract.
>
> The price of the goods or any portion thereof not delivered on the date or respective dates provided for in this contract shall be reduced by one percent (1%) for each seven day period (including Sundays and holidays) or portion thereof which elapses beyond such delivery date or dates.
>
> In the case of non-delivery after the expiry of such seven-day period, Her Majesty shall be entitled to Her Majesty's normal remedies under the contract for such non-delivery.
>
> In the establishment at any point in time of the quantity short to schedule, late deliveries due to "force majeure" conditions such as an Act of God, third party strikes, will be cause for renegotiation of the application of the penalty mentioned above.

In September 1969 the contractor requested the Department of Supply and Services to revise the penalty clause in each contract so that he would only be

required to reimburse the Crown for actual damages caused by late deliveries. In March 1970, at which time deliveries were as much as 20 months late and the penalties were estimated to be in excess of $1 million, the contractor again sought relief from the penalty clause. The Department estimated that total penalties which would accrue over the life of the contracts would be $3,150,000 or more than 80% of their value of $3,845,000.

In May 1970 the contractor proposed that a ceiling of $115,000 be established for penalties. The Crown estimated that it would incur costs of $76,000 due to late deliveries; and since the company claimed that four third-party strikes had affected deliveries, the Crown concluded that due to "force majeure" the penalty clause should be renegotiated. The Treasury Board in November 1970 approved the Department's proposal to amend the contracts by removing the penalty clause and substituting a "damages" clause with a combined ceiling of $115,000. Pending determination of the actual costs incurred due to late deliveries, the Crown is withholding $55,000 from payments due to the contractor.

As a consequence of the change approved by the Treasury Board, the Crown waived penalties that had already accrued which are estimated to be in excess of $1 million.

Section 17 of the Financial Administration Act makes provision for the Governor in Council to remit any tax, fee or penalty when he considers it in the public interest to do so. In our opinion it is in this way that any relief to be given to the contractor should have been provided.

127. *Extra costs incurred through failure to clarify contract documents.* In October 1969, Defence Construction (1951) Limited awarded a contract for the design and construction of two large vehicle storage and maintenance buildings at CFB Valcartier, Que., in the amount of $1,943,000 which was increased to $2,006,000 by December 1970.

The successful bidder based his proposal on outline drawings and specifications provided by the Department of National Defence. In December 1969 the Company advised the contractor that the use of plywood underlay called for in the guide specifications for the roofing on these buildings was considered to be a requirement of the contract. The contractor agreed to this change but stated it was not part of his bid price and an extra would be claimed.

In February 1970 the contractor submitted a claim in the amount of $87,400 of which $42,600 was for plywood underlay, $18,400 for changes in insulation and $26,400 related to the extra costs of applying the roofing in a manner not contemplated by the contractor in submitting his original proposal.

Although the Company contended that the majority of this work was covered under the contract, the contractor insisted it was outside the scope of his proposal. In

March 1971 the Department of National Defence accepted the contractor's position in principle and, with the approval of the Treasury Board, awarded the contractor an additional $59,400 based on the normal cost of $1.10 per square foot for this type of roofing.

The misunderstanding resulted from the failure of the Company to obtain a clear written statement from the bidder of amendments to his proposal before awarding the contract. It would seem that the competitive aspect of bidding would have been enhanced if the original invitations to bid had clearly indicated the specifications which were included as a guide only and those which were mandatory.

128. *Cost of unused plans, Canadian Forces Base Borden, Ont.* In May 1970 the Department of National Defence instructed Defence Construction (1951) Limited to engage a firm of architects to prepare working drawings, specifications and cost estimates for an addition to its technical training school at CFB Borden at a cost of $14,000. In June the Department made an additional $15,000 available and requested the Company to include designs for alterations to the school and a second building, and for an addition to a third building. In August the Department gave instructions direct to the architects to produce drawings and specifications for alterations to three hangars at an estimated cost of $11,500.

In November 1970, following a review of the consultants' design and cost estimates, the Department reassessed the Base training role in relation to existing accommodation and decided to change its proposed use of buildings to achieve construction cost savings of $382,000. This decision resulted in the abandonment of the design work, and its actual cost of $47,200 became non-productive.

129. *Additional cost due to delay in acceptance of tender.* In April 1970, Defence Construction (1951) Limited received tenders for the supply and installation of automatic fire protection equipment in six hangars at CFB Cold Lake, Alta. The lowest tender was $260,500 which was $10,500 in excess of the maximum expenditure permitted without further approval within the Department of National Defence and by the Treasury Board. Although the Company had 60 days in which to accept the tender, the Department advised it within 30 days to cancel the tender call and the low tenderer was advised accordingly.

Late in July 1970 the Department received Treasury Board authority to proceed with the work and the Company negotiated a firm-price contract with the original low tenderer in the amount of $272,500, an increase of $12,000 over the tendered price, but $15,500 lower than the amount of the second-lowest tender received in April.

Failure to accept the original tender within the normally accepted 60-day period which expired June 20, 1970 has resulted in an increase in the contract price of $12,000 which is considered non-productive. Furthermore, by proceeding with a

negotiated contract instead of again calling for tenders the Company made it possible for the low tenderer to raise his price without fear of competition from other tenderers who may have been prepared to lower their bids in order to obtain the contract.

The action of cancelling a tender and then negotiating a higher firm price with the lowest tenderer could completely negate the protection available to the Crown by means of the tender system.

130. *Inadequate documentation and follow-up.* In previous Reports (paragraph 113 in 1970) we have drawn attention to instances where the National Harbours Board had failed to require the completion of the necessary legal formalities before permitting its assets to be used by others. In May 1971 the Public Accounts Committee examined the corresponding paragraph in our 1969 Report and in its Sixth Report to the House dated June 30, 1971 recommended

> that the National Harbours Board discontinue the practice of granting of the use of its assets to others prior to the signing of a contract; the absence of such a document can lead not only to disagreement and litigation but also to deprivation of the public purse over protracted periods. The Committee realizes that the Board is presently being reorganized and hopes that the type of difficulties including those of the legal department referred to under paragraph 122 will be eliminated in the future.

The matters remaining unresolved include the following:

1. THE ABSENCE OF A LEASE WITH AN OIL COMPANY FOR THE RENTAL OF SPACE, ST. JOHN'S HARBOUR, NFLD. The oil company vacated the property in 1967 and since then has been disputing rental charges of $47,000. Legal proceedings have now been commenced against the company.

2. JOINT VENTURE AGREEMENT FOR THE OPERATION OF GRAIN ELEVATORS, SAINT JOHN, N.B. This agreement has been in effect since January 1, 1967. Of the Board's share of the profits for the four years ended December 31, 1970, as computed by the other partner in the venture, only $79,000 has been remitted to the Board, the balance of $75,000 having been remitted in the Board's name to the municipality as property taxes. Although the Board had objected to this on the grounds that the agreement did not permit it and also that the payments exceeded the amounts owing, the partner remitted $19,000 in 1970 to the City of Saint John from the Board's share of the 1970 profits. Although the agreement permits the Board to examine the partner's records relating to the operation of the elevators, the Board has not yet made such an examination.

3. THE ABSENCE OF A CONTRACT FOR THE SALE OF NO. 3 ELEVATOR, VANCOUVER, B.C. The documentation for the sale of this elevator on August 1, 1965 has still not been completed and the dispute with the purchaser, involving $60,000, remains unresolved.

4. THE ABSENCE OF A CONTRACT FOR THE SALE OF NO. 1 ELEVATOR, VANCOUVER, B.C. The documentation for the sale of this elevator on December 15, 1967 has still not been completed.

5. THE ABSENCE OF LEASES WITH PRIVATE OPERATORS FOR THE OPERATION OF CERTAIN PIER FACILITIES, VANCOUVER, B.C. Negotiations have continued throughout the year towards the finalization of the leases and the $118,000 that was being withheld by one of the operators was collected. One operator entered into an agreement with the Board in December 1970, the document evidencing such agreement being described as Heads of Agreement. Having regard to the terms contained in the Heads of Agreement, the operator then entered into a contract with certain commercial interests. Subsequently, the Board varied some of the terms in the

Heads of Agreement and, as a consequence, the operator again withheld moneys due to the Board which amounted to $239,000 at July 31, 1971. Additional Heads of Agreement documents were delivered to the operators in July 1971 but they unanimously rejected the terms contained therein as not being commercially viable.

6. LAXITY IN FINALIZATION OF LEASES AND REVISION OF RENTAL RATES. Seven of the ten tenants who had occupied Board property at Montreal for periods of up to fifteen years without leases continued to do so. The rental rates under two of four leases that provided for rate revisions remain unrevised.

All three tenants who had occupied Board property at Quebec for periods of up to thirteen years without leases continued to do so.

At Vancouver there has been no change for many years in the rentals under four leases (out of the six referred to last year) which permitted continued occupancy on a month-to-month or year-to-year basis after the original expiry date, even though adjacent Board properties are commanding higher rates. Two other leases provided for rental rates to be reviewed at mid-term, but this had not been done.

The unsatisfactory conditions which prompted the Committee's recommendation in its Sixth Report to the House had been noted in our 1969 Report in which we commented on our examination of the Board's accounts for the year ended December 31, 1968. These conditions continued during the years ended December 31, 1969 and 1970. However, we are assured by the management that efforts are being made to correct them.

131. *Subsidization of commercial concern by charging less than the economic rent.* The rent of one major tenant of the National Harbours Board at Montreal was not revised at the end of a five-year period as provided for in the lease but was continued at the previous uneconomic rate. The Port Manager, in a letter to the Board dated December 10, 1970, stated:

> The current rental value of 5 cents per square foot is not in line with land values in the area and must therefore have been determined after careful study of other economic considerations. No recommendation of any change in rental rate was made at the end of the first five-year term as, amongst other things, the company had quite serious financial problems . . .

On June 4, 1971 a Board member stated:

> the continuation of the current rental rate, which is admittedly below the land value in the area, places the Board in a position of subsidizing the lessee to the extent of the difference in rental rates . . .

and on July 19, 1971 the same member stated:

> [the economic rent] is estimated to be in the order of 20 cents to 25 cents per square foot on current values.

The tenant is being charged the amount of $86,500 annually, based on the 5 cents per square foot rate instead of $346,000 which would have been chargeable if a 20 cent per square foot rate had been used.

132. *Loss of revenue due to miscalculation of ship tonnage.* The tonnage of vessels registered in certain countries (e.g., Liberia, China and Argentina), as listed in Lloyd's Register of Shipping, is not calculated in accordance with North American or British standards which ordinarily result in 20% higher tonnage figures. Because of this, the National Harbours Board issued a directive in 1956 that harbour dues and dockage charges on ships registered in these countries would be surcharged by 20%. However, a shipowner was to be reimbursed if he could produce a tonnage certificate within six months verifying that the tonnage had been calculated in accordance with acceptable standards.

For the past two years, the Port of Quebec has not collected the surcharge and as a consequence revenues have been lost. We have been advised by the Board that:

> Unfortunately, perhaps by reason of personnel changes in the staff at Quebec this directive was mislaid and its application was discontinued.

In order to avoid a recurrence of this situation at Quebec or any harbour under the administration of the Board, a new directive was issued in June 1971 reminding all port managers of the surcharge.

133. *Inadequacy of crane charges—Vancouver Harbour.* In paragraph 117 of last year's Report, we drew attention to the fact that the National Harbours Board tariffs establishing crane charges had remained unchanged for many years. This, coupled with rising costs, had resulted in a loss of $76,000 exclusive of depreciation in the year ended December 31, 1969. We recommended that a review be made of all charges for crane operations and in due course were advised that this would be done. Crane charges were not increased, and in the year ended December 31, 1970 there was a loss of $107,000 exclusive of depreciation.

134. *Payment for water supply facilities for Roberts Bank, Vancouver, B.C.* A tenant of the National Harbours Board at Roberts Bank informed the Board that he had paid $228,000 to the municipality of Delta to cover the capital cost of water supply facilities for Roberts Bank. The Board, with the approval of the Governor in Council, reimbursed the tenant in March 1970.

At the time of our audit, no attempt had been made by the Board to substantiate that a payment had in fact been made by the tenant to the municipality or to obtain a breakdown of the amount of $228,000 and we recommended that this be done. On July 16, 1971 the Board wrote to the tenant requesting an accounting for the moneys paid to Delta and copies of receipted vouchers substantiating the payment. On September 13, 1971 the tenant's legal advisers submitted a photostatic copy of their cheque for $228,000 issued on behalf of the tenant to the municipality but stated that they were not aware of how the funds were utilized by the municipality. The Board has made no further enquiries.

A paid cheque is not a satisfactory voucher and, in the absence of an invoice in some detail from the municipality in support of the payment, we are not in a position to state that the payment was proper.

135. *Defalcation by National Harbours Board employee.* In the early 1960's the National Harbours Board served notices of expropriation on the owners of property on certain islands in the St. Lawrence River near Montreal and at various dates between 1966 and 1970 the Board issued cheques in settlement. These cheques were turned over to one of the Board's legal officers for delivery to the payees in exchange for deeds of acquittance. On 23 occasions between July 1967 and December 1970 the legal officer forged the payee's endorsement and deposited the cheque in his personal bank account.

On August 17, 1971 the legal officer tendered his resignation to the Board and on September 20, 1971 joined the staff of the Department of Justice in Ottawa. On or about September 28, 1971 he confessed his defalcation, whereupon the Board initiated an immediate investigation of the circumstances. The Department of Justice suspended the officer on October 22 and he resigned seven days later.

On November 1, 1971 the National Harbours Board employed a firm of public accountants to ascertain the extent of the defalcation. Its instructions to the firm called for:

1. Examination of the documentation supporting all land transactions with a view to determining the exact amount of any misappropriated funds during the period.
2. Outline of the procedures followed in any misappropriation that may have occurred.
3. Determination of the extent of any further examination which would be required to reveal any other misappropriations in the areas of claims, work for outsiders and write-off of uncollectable accounts and the examination of these areas subject to our [National Harbours Board] prior approval.
4. Confirmation of the procedures already recommended to avoid recurrence of a similar situation.

The public accountants made their report to the Board on December 22, 1971 indicating that the legal officer had forged the payee's endorsement on 23 occasions involving a total of $51,000. We understand the legal officer involved is to be prosecuted and that reimbursement of the losses has been sought from the bank which accepted the forged endorsements.

We were not advised of the defalcation until November 17, 1971. In our examinations over the past several years we have expressed concern (paragraph 113 of our 1970 Report) regarding many weaknesses in the internal financial control of the Board. Some of these weaknesses have resulted in failure to collect revenues due to the Board from its customers. This particular defalcation would have come to light when the property deeds were required for Board purposes but would have been revealed much earlier had the Board required periodic reports on uncompleted transactions and had the internal control procedures been adequate.

We are currently reviewing the situation following receipt of the report of the public accountants.

136. *Contract for the construction of a survey and inspection vessel.* In April 1970 the National Harbours Board received the approval of the Governor in Council for entry into a contract with the low tenderer for the construction of a survey and inspection vessel for use in Montreal Harbour, at an estimated cost of $208,000, based on the tender price of $159,500, a contingency provision of $15,000, and federal and provincial sales taxes estimated at $33,500. Although the tenderer had not posted the required security deposit, he was notified on May 6, 1970 that he had been awarded the contract which called for delivery of the vessel on November 2, 1970. The contractor then submitted one-half of the security deposit on May 25, 1970 and the other half on June 25, 1970. Although the contract was dated May 6, 1970, it was actually executed on June 30, 1970.

By April 1971 progress payments totalled $157,000 but the vessel was far from complete, it being estimated that another $100,000 would be required.

The principal reasons for the increase in costs were the underestimate of labour content and poor management. The contractor's original estimate of the labour required to construct the vessel was 5,000 man-hours but up to April 1, 1971 a total of 8,446 man-hours had been expended and it was then projected that a further 4,400 man-hours would be required for its completion.

Although work is at a standstill, the contract has not been cancelled. The Board is considering alternatives for completion of the vessel.

137. *Dispute between the National Harbours Board and the Department of Public Works.* In paragraph 115 of our 1970 Report we referred to a dispute between the National Harbours Board and the Department of Public Works relating to water consumption at Quebec Harbour in the years 1958 to 1967. We suggested that the Board cancel its charge of $52,000 against the Department and pay the amount of $25,000 claimed by the Department. The Board has agreed to these suggestions but has not yet given effect to them pending completion of negotiations for payment by the Department of certain costs associated with the water supply line serving the property.

138. *Dispute over electricity charges with the tenant of a grain elevator at Quebec, Que.* In paragraph 116 of our 1970 Report we drew attention to a dispute between the National Harbours Board and the tenant of its grain elevator at Quebec over charges amounting to $32,000 for electrical power consumed by the tenant between May 1, 1967 and May 31, 1968. The claim, now established in the amount of $38,000, has been referred to the Department of Justice for settlement.

139. *Provincial payments to federal hospitals under the Hospital Insurance and Diagnostic Services Act.* Regulations approved by the Governor in Council under the provisions of the Hospital Insurance and Diagnostic Services Act, *R.S., c. H-8,* stipulate that:

> The amounts payable by a province in respect of the cost of insured services provided by federal hospitals shall be determined on the basis of the amount that would have been paid by the province for such services to hospitals other than federal hospitals in that province that are comparable as regards size, facilities, standards of service and location.

The agreements that have been entered into with each of the provinces and the territories set out the manner in which they will comply with the Regulations in the matter of reimbursing federal hospitals for the cost of providing insured services. Generally, federal hospitals are required to submit to the provincial hospital insurance authority the same returns and information, including budgets and audited financial statements, that are required from non-federal hospitals and they are also to be paid on the basis of approved audited costs. If a federal hospital is unable to provide the required returns, it is to receive payment, usually expressed as a patient-day rate, calculated on the basis of amounts paid to non-federal hospitals providing similar services. Exceptions to the general arrangements are the Province of Alberta and the two territories which pay at patient-day rates that have been negotiated between the hospital insurance authority and the appropriate federal authority.

Reference has been made in our Reports for the past seven years (paragraph 119 in 1970) to our inability to determine whether the terms of the agreements with the various provinces under the Act, relating to payment to federal hospitals, were being observed in all cases. This stemmed from the inadequacy of accounting and medical records in some hospitals and from the delay in the preparation and submission of returns and billings to the provinces. Some improvement had been noted but the situation remained basically the same.

Our examinations during the year disclosed further improvements but difficulties were still being encountered at certain hospitals:

1. Of the five hospitals referred to in our 1970 Report which had never submitted financial returns, one, Miller Bay Indian Hospital, was closed in September 1971. The other four had still not submitted returns but were preparing to do so.

2. Adjustment of per diem rates for the years 1965 to 1967 was still under negotiation with the Province of Ontario for Moose Factory General Hospital.

Until such time as all hospitals furnish budgets and financial returns on a current basis to the provincial hospital service plans, it is not possible for us to determine whether per diem rates being received by the hospitals are equitable and in accord with the terms of the agreements with the provinces.

140. *Loss of revenue due to vacancies in Crown-owned housing.* As part of the operation of the Charles Camsell Hospital in Edmonton, Alta., the Department of National Health and Welfare maintained an entire city block of property adjacent to the Hospital comprising 3.66 acres of land and 15 family type dwellings. These were used as staff residences accommodating up to 31 families. In November 1969 the Department reported to Crown Assets Disposal Corporation that the property was surplus to requirements since alternative accommodation was available to the staff of the Hospital. No attempt was made to lease the rental units as the tenants moved out. By November 1, 1970 all of the rental units had become vacant.

In June 1970, at which time 13 units were vacant, the Department of National Defence, having a requirement for married quarters, joined in a submission to the Treasury Board requesting approval of the transfer of administration and control of the property from the Department of National Health and Welfare to the Department of National Defence. Approval was not received until March 11, 1971 and the transfer was effected on March 29, 1971.

During the period when the units were vacant, market conditions for housing accommodation in the Edmonton area were such that short-term leases could probably have been arranged. Based on the rental rates that were in effect for hospital staff, the revenue loss to the Crown resulting from these units being vacant for up to ten months is approximately $21,000.

141. *Canada Assistance Plan.* The Public Accounts Committee in its Fourteenth Report 1966-67 asked the Auditor General to follow up and report to the House on the progress made in implementing the Canada Assistance Plan, *R.S., c. C-1,* and on the adequacy of this new comprehensive approach to social assistance in overcoming administrative weaknesses previously criticized.

We have reported in previous years (paragraph 121 in 1970) on the phasing out of contributions to the provinces under agreements pursuant to the Unemployment Assistance, Old Age Assistance, Blind Persons and Disabled Persons Acts consequent on the enactment of the Canada Assistance Plan. This changeover has continued and during 1970-71 all provinces and the Yukon Territory were making claims under the Plan. The Northwest Territories has not yet signed an agreement with Canada and continues to claim under the Unemployment Assistance Act, *R.S., c. U-1.* Alberta, Ontario, and the Yukon Territory were claiming under both the Plan and the Unemployment Assistance Act and all provinces and territories were still claiming under one or more of the three categorical programs. It is expected that ultimately all contributions to the provinces and the territories towards the cost of social assistance will be made under the provisions of the Canada Assistance Plan.

Contributions under the Plan during the year amounted to $390,860,000 compared with $293,529,000 in 1969-70.

The agreements with the provinces under the Canada Assistance Plan provide that a statement of final costs, certified as to the correctness of the information contained therein by the provincial authority and the provincial auditor, must be delivered to the Minister of National Health and Welfare within one year following the year to which it relates or within such further period as the Minister may agree to. The Provinces of Newfoundland, Saskatchewan and British Columbia have been unable for the past three years to deliver their statement of final costs within the prescribed one year period. Because of this delay our audit of the Plan, with respect to these Provinces, is conducted about two years in arrears. Subject to this limitation our examinations have not disclosed any serious weaknesses in the administration of the Plan.

142. *Frauds in the Old Age Security Program.* In previous Reports (paragraph 122 in 1970) reference has been made to frauds amounting to $961,000 in the Old Age Security Program that an investigation had disclosed in 1969 following a routine check by the Department of National Health and Welfare of undelivered cheques at one regional office. Recoveries of about $375,000 had been made and the investigation was continuing.

Further investigation by the Department has disclosed additional irregular payments bringing the total to $1,039,000, of which $532,000 has been recovered.

143. *Guaranteed income supplement.* In paragraph 123 of our 1970 Report we drew attention to overpayments of guaranteed income supplement that were being disclosed through an annual test comparison of the income shown by the applicant on his claim for supplement with that shown on his income tax return for the same year. The tests made in 1968 and 1969 relating to income in 1967 and 1968, which covered approximately 5% of the claims, indicated annual overpayments of up to $5 million and, although we suggested that a test that covered the total case load only once in 20 years was low, the Department of National Health and Welfare decided to continue the same percentage of test of 1969 income and, if the results warranted, to consider a more extensive check in the future.

The following table shows the amount of the overpayments disclosed in each of the past five years:

	Income checked	Over-payments disclosed
1967	1966	$ 188,000
1968	1967	173,000
1969	1968	267,000
1970	1969	518,000
1971	1970	212,000

When the Public Accounts Committee considered paragraph 123 of our 1970 Report on December 7, 1971, the Deputy Minister advised the Committee that the check to be made in 1972 of 1971 income was being increased to 10%.

144. *Final benefit calculations under the Canada Pension Plan.* When an application is received by the Department of National Health and Welfare for a benefit under the Canada Pension Plan, *R.S., c. C-5,* the amount of the entitlement cannot be finally calculated until information with respect to earnings and contributions during the final period of employment of the applicant is received from the Department of National Revenue, which is responsible under Part I of the Plan for the collection of contributions. Final reports for a taxation year are not available until approximately 11 months after the close of the year.

In order that an applicant may receive an immediate pension, section 60 of the Plan provides for payment of an interim benefit. This benefit is based on the information contained in the record of earnings, compiled from reports of the Department of National Revenue, and on information provided by the applicant with respect to his final period of employment. Section 60 also provides for payment to the beneficiary of any additional amount, or collection of any overpayment, when final calculations are made.

Retirement benefits became payable under the Plan in January 1967 and survivor benefits in February 1968. At December 31, 1969, 160,000 awards, including 25,000 lump-sum payments of death benefits, had been made, of which 129,000 are still in payment. Each of these benefits has been calculated on an interim basis under the provisions of section 60 of the Plan. The Department has made no final calculation of the awards, although actual earnings information from the Department of National Revenue has been made available for each year up to 1969. In a limited examination of interim earnings, on which survivor benefit calculations were made in 1968, and actual earnings we found variances in more than 25% of the cases, of which about 30% represent possible overpayments. A similar test of retirement pension awards, by the Department of Supply and Services which provides computer service for the Plan, disclosed an even higher incidence of error.

The only explanation for failure to make final calculations of awards appears to be that the Department does not have the staff necessary to do the work.

As a considerable number of the pension awards remain in payment for a relatively short period of time, it would appear essential that the final calculation of the benefit be made as soon as practicable after information on actual earnings becomes available.

145. *Excessive charge to appropriation for the National Library.* Secretary of State Vote 85 provided $2,600,000 to meet the program expenditures of the National

Library. The Vote text stipulated that this amount included a specific sum of $235,000 for the purpose of acquiring books and that amount was transferred from the Vote to the National Library Purchase Account in accordance with section 12 of the National Library Act, *R.S., c. N-11.*

The term "books" includes other library materials and, in the course of our examination, we noted that an additional net amount of $34,000 was paid from the appropriation as advance payments in connection with the purchase of a collection of microfilms of ancient documents. Consequently, the Vote has been charged with $34,000 in excess of the amount authorized by Parliament specifically for the purchase of books. This amount could not have been paid from the Purchase Account in which there was a balance of only $1,250 at March 31, 1971. The following are the circumstances giving rise to the advance payments.

In 1970 a committee representing a group of Montreal citizens asked if the National Library would establish an account within the National Library Special Operating Account into which donations could be placed for the purchase for the National Library of microfilms of an important collection of ancient manuscripts which heretofore had not been available to scholars in the Western World. The National Library agreed, and the committee accepted the offer of a Montreal resident to organize a campaign to raise an estimated $250,000 for the purchase of this material.

Before sufficient contributions were paid in to cover the cost of the microfilms, advances were made to a Montreal book dealer, who was arranging for the acquisition, and were charged to Vote 85. Because of this, contributions were credited to the Vote as received. However, contributions were slow in coming in and a number were in the form of post-dated cheques which were later returned by the banks because of insufficient funds. During the year advances totalled $62,500 and donations $28,500, leaving a net charge to the Vote of $34,000. A further advance of $25,000 was made in 1971-72 and charged to the corresponding appropriation in that year.

In view of the fact that only $46,800 in contributions had been received to October 1971, it is suggested that if this purchase is to be completed, consideration should be given to an appropriate method of financing it.

146. *Excessive charge to appropriation for the National Museums of Canada.* Secretary of State Vote 90 provided $8,333,000 to meet the program expenditures of the National Museums of Canada. The Vote text stipulated that this amount included a specific sum of $1,166,000 for the purchase of objects for the collections of the Corporation and that amount was transferred from the Vote to the National Museums Purchase Account in accordance with section 10 of the National Museums Act, *R.S., c. N-12.*

In the course of our examination, we noted that in addition an amount of $40,400 was paid from the appropriation as the purchase price of works of art. Consequently the Vote has been charged $40,400 in excess of the amount authorized

by Parliament specifically for the purchase of objects for the collections of the Corporation. Funds sufficient to cover this purchase were available in the National Museums Purchase Account.

147. *Cancellation of contract for animated puppet display.* In April 1967 the National Museums of Canada entered into a contract for the production of an animated puppet display illustrating a folk tale "Le Serpent au Teint Vert" at a cost of $76,950, the work to be completed by April 1969. The contractor entered into a subcontract in June 1967 in the sum of $50,000 for the production by April 1969 of a system of puppet animation, stage settings and synchronization of the elements for the production. The prime contractor was paid a total of $58,000 during the period May 1967 to July 1968.

An inspection of the work by an officer of the National Museums in September 1968 disclosed that the subcontractor had produced puppets that were "inefficient according to our specifications and simply don't work". The officer was of the opinion that the prime contractor had "absolutely no practical technical knowledge how to execute a task this big" and the subcontractor had "no artistic and technical ability to plan and organize a project so complicated as this". He recommended that the project be stopped immediately.

In May 1969 the National Museums engaged a firm of consultants to undertake, at a cost of $6,600, a feasibility study to determine the expertise required and the estimated cost of completing the project. The consultants estimated that an additional $325,000 would be required to complete the project.

In an attempt to recover the amount paid under the contract, legal proceedings were instituted against the prime contractor. However, these proceedings were held in abeyance when repayment of $12,268 was received in March 1971 from the contractor who also agreed in June 1971 to take legal proceedings against the subcontractor and pay any amount recovered to the Crown as part settlement of the claim.

148. *Computer purchased on the instalment plan.* In February 1969 the Treasury Board issued a circular to government departments and agencies announcing a new policy in relation to the various financial options available for computer acquisition including the instalment plan. The circular instructed the departments to "explore all such options, and select the one which provides the flexibility required at the least overall cost". In accordance with these instructions, the National Research Council of Canada determined that the most economic option was outright purchase. However, the large capital outlay required for outright purchase could not be accommodated in the Council's annual estimates due to the financial limits imposed by the Cabinet and the instalment method of payment was chosen as the most economic of the options still open.

In August 1970 the Treasury Board authorized the total purchase price of \$3,407,000 to be met by a payment of \$1,280,000 by the delivery date in October 1970 with the balance of \$2,127,000 to be financed, and paid by instalments with interest at 10% per annum for 4½ years.

The instalment payment agreement included the following:

(a) Title to the machines to remain with the computer supplier until the total sale price is paid.

(b) In the event that future funds for instalments are not provided by Parliament, the computer supplier may remove the machines and be entitled to retain all sums paid.

(c) The purchaser, in the event of repossession, would be obligated to reimburse the supplier for costs (if any) necessary to restore the equipment to a fully operational and working order (ordinary wear and tear excepted).

This method of financing is a serious departure from the concepts of the Financial Administration Act. It infringes on control by Parliament and violates the principles on which the following sections of the Act are based:

(1) section 36 which provides that no money shall be borrowed or security issued by or on behalf of Her Majesty without the authority of Parliament;

(2) section 37 which provides that where Parliament has authorized the borrowing of money, the Governor in Council may authorize the Minister of Finance to borrow the money by the issue and sale of securities in such form, for such separate sums, at such rate of interest and upon such other terms and conditions as the Governor in Council may approve;

(3) section 39 which specifically empowers the Governor in Council to authorize the Minister of Finance to make temporary loans for a period not exceeding six months.

Section 40 of the Financial Administration Act requires that a statement of all borrowing transactions shall be included in the Public Accounts but there is no provision for the disclosure of indebtedness arising from purchases being made by the Government on the instalment plan.

Interest charges of \$467,000 will be paid to the computer supplier over the life of the contract. This is \$167,000 more than the \$300,000 which it is estimated would have been paid had the funds been borrowed in the normal manner.

149. *Determination of "sale price" for sales tax purposes.* As far back as 1946, the Auditor General drew the attention of the House of Commons to the practice of the Department of National Revenue of collecting sales tax in certain circumstances on lesser amounts than the "sale price" of manufactured goods although section 27 of the Excise Tax Act, *R.S., c. E-13,* requires sales tax to be calculated on the "sale price". (See paragraph 125 of our 1970 Report.)

In 1955 a Sales Tax Committee was appointed to review and advise upon certain technical questions relating to the administration of the sales tax. Included in the Committee's report, dated January 12, 1956, is the statement that "the Act does not appear to authorize the Minister to vary actual selling prices or to impute wholesale prices when they do not exist", and the Committee recommended that "the existing scheme of valuation be continued for the present with statutory sanction".

In its Eighth Report 1964-65 which was presented to the House of Commons on December 7, 1964, the Public Accounts Committee recommended

> that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

The Committee mentioned the matter again in its Fourth Report 1969-70 and, in a letter to the Chairman of the Committee on November 25, 1970 concerning action taken on matters referred to in that Report, the Minister of National Revenue stated that this matter represented a most difficult legal and practical problem on which the Department has been working with the Department of Finance for some time. The Committee has not yet given consideration to the letter from the Minister. (See Appendix 1, item 10.)

150. *Delay in collecting sales tax.* In our last three Reports (paragraph 125 in 1970) we have referred to section 27 of the Excise Tax Act, *R.S., c. E-13,* under which licensed manufacturers are required to pay sales tax on fully manufactured goods purchased for resale.

Some licensed manufacturers prefer to collect sales tax on all their sales, including sales of fully manufactured goods purchased by them for resale. In such cases the Department of National Revenue by regulation permits them to immediately deduct any sales tax paid on these purchases from amounts currently due the Department with respect to their taxable sales. The effect of this regulation is that a manufacturer's inventory of fully manufactured goods purchased for resale is carried free of sales tax and the requirement of the law that sales tax be paid on his purchases of fully manufactured goods for resale is completely negated.

During its consideration of our 1968 Report the Public Accounts Committee dealt with this matter and in its Fourth Report 1969-70 expressed the opinion that the practice being followed was less cumbersome than the practice called for by section 27 of the Excise Tax Act and that an amendment should be sought.

In writing to the Chairman of the Public Accounts Committee on November 25, 1970 concerning action taken on matters referred to in the Committee's Fourth Report 1969-70, the Minister of National Revenue stated that the opinion expressed by the Committee that an amendment to the Excise Tax Act should be sought had been noted by the Department and that an appropriate statutory amendment forms part of the Department's legislative program. (See Appendix 1, item 29.)

151. *Concessions made to motor vehicle manufacturers.* In previous Reports (paragraph 126 in 1970) we have drawn to the attention of the House the matter of concessions made to motor vehicle manufacturers because of the responsibility of the Auditor General to examine and ascertain not only that all public moneys are being

fully accounted for, but that the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of the revenue.

We expressed the view that, as long as there are conditions to be met before a motor vehicle manufacturer qualifies for duty-free importation under the various programs involving concessions to such manufacturers, it is essential that adequate procedures and accounts be set up by the Department of National Revenue since it is the responsibility of that Department to take and maintain the initiative in assessing and collecting taxes due to the Crown.

Our examinations had indicated that the procedures followed by the Customs and Excise Division of the Department of National Revenue in administering the Motor Vehicles Tariff Order 1965 were not adequate to protect the revenue and that it was essential that the Department take steps to strengthen its administration of the program to ensure that the importers concerned did not benefit from concessions beyond those approved by the Governor in Council and that revenues due to the Crown were promptly collected. This situation remains the same.

Our comments on this subject in our 1968 Report were examined by the Public Accounts Committee at meetings held on June 10, 12 and 17, 1969, when officials of the Department of National Revenue, the Department of Industry, Trade and Commerce and the Department of Finance were questioned. The Committee has not yet reported to the House on these meetings.

For the year ended July 31, 1970 all major motor vehicle manufacturers importing under the Motor Vehicles Tariff Order 1965 met the conditions of that Order and consequently there were no duties and sales tax on duties owing by those manufacturers at March 31, 1971.

However, it was noted during the year that one major manufacturer imported commercial vehicles which were not of the same class as the vehicles manufactured by him. Because the Motor Vehicles Tariff Order 1965 permits the duty-free import of completed automobiles, buses and specified commercial vehicles, only when imported by a manufacturer of the same class of vehicle, a conditional remission order, P.C. 1970-1536 dated September 9, 1970, applicable to the major manufacturer was granted under section 17 of the Financial Administration Act. The conditions were not met and the manufacturer became liable for duties and sales tax on duties amounting to $6 million.

However, this debt to Canada is not included in the accounts receivable of the Department of National Revenue—Customs and Excise which are shown as $14,301,-000 on page 27.2 of Volume II of the Public Accounts. An explanatory note states in part as follows:

> Not included in the statement is a contingent receivable estimated at $6,324,066 for duties and taxes resulting from failure to meet the requirements of the law in connection with the importation of motor vehicles and motor vehicle parts, having particular reference to the

> automotive programs. This estimate includes only cases where the department has ascertained that companies have not fully complied with the conditions specified . . .

The Department has taken no steps to collect this amount and we are informed that it expects the debt to be forgiven.

152. *Remissions granted by the Governor in Council under section 17 of the Financial Administration Act.* Section 17(1) of the Financial Administration Act provides that:

> The Governor in Council, on the recommendation of the Treasury Board, whenever he considers it in the public interest, may remit any tax, fee or penalty.

and subsection (8) requires that:

> A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the Public Accounts.

In accordance with this requirement, listings of remissions of one thousand dollars or more are included in Volume I of the Public Accounts. However, in the case of remissions under a machinery program there has been a departure from the normal practice in that names have not been shown.

As in previous years, the majority of the remissions pertain to customs and excise duties and excise taxes administered by the Customs and Excise Division of the Department of National Revenue. The totals of the remissions with respect to this Division for which amounts appear in the Public Accounts, in each of the past five years are as follows:

1966-67	$ 30,134,000
1967-68	29,506,000
1968-69	197,308,000
1969-70	179,826,000
1970-71	117,095,000

In addition to the remissions for which amounts are shown, a number are granted where the amounts involved are not accumulated or cannot be readily determined. In such cases, a narrative description of the remission is included in the Public Accounts.

Remissions relating to a machinery program amounted to $71.4 million compared with $55.1 million in 1969-70. This program was introduced by the Department of Industry, Trade and Commerce in December 1967 to enable Canadian industries to acquire capital equipment at the lowest possible cost.

Remissions on goods or equipment imported into Canada on a temporary basis amounted to $16.9 million in 1970-71 compared with $21.7 million in 1969-70.

Remissions totalling $15.2 million, compared with $12.6 million in 1969-70, were granted during the year to Canadian airlines making use of their aircraft in international as well as domestic service. The percentage of duties and taxes remitted is the percentage that international usage bears to total usage.

Remissions totalling $239,000 were granted during the year to 22 companies and two individuals in cases where it was considered that litigation would not be expedient.

153. *Income tax owing by non-residents.* In previous Reports (paragraph 128 in 1970) reference has been made to the deletion from the accounts of income tax owing by taxpayers from whom collection could not be effected because they were no longer resident in Canada.

During the year such deletions amounted to $176,000 owing by 471 taxpayers. This compares with deletions in the previous year of $746,000 owing by 630 taxpayers of which $410,000 was owing by 14 taxpayers.

We reiterate our view that the continuing problem of collecting income tax from non-residents is aggravated by the fact that a person emigrating from Canada is not required to obtain a tax clearance before departure, by the lack of any agreement with other countries for the collection of tax on a reciprocal basis, and by the apparent inability of any government to make use of the courts of another country for tax collection purposes.

There is a similar problem with respect to some residents of Canada living near the United States border who are employed in the United States. Such persons are taxable in Canada on their income, whether earned in the United States or Canada, but collection becomes impossible if the resident arranges to keep in the United States any assets which might be seized.

The Public Accounts Committee in its Fourth Report 1969-70 stated that

> this is an area where the government should take immediate steps, perhaps by a series of agreements with other countries as well as developing its own internal procedures, to minimize the evasion of payment of income tax by persons leaving Canada or removing assets from Canada.

As far as we are aware the Department has not responded to this statement by the Committee.

154. *Income tax concessions to members of the Canadian Forces.* In previous Reports (paragraph 129 in 1970) attention has been drawn to three income tax concessions enjoyed by members of the Canadian Forces under Regulations made pursuant to section 66 of the Income Tax Act, *R.S. 1952, c. 148.* The first was that a serviceman, unlike a civilian taxpayer, received the benefit of the married exemption even though his wife's income exceeded $1,250, and where his wife had an income between $250 and $1,250 in a taxation year he was not required to reduce his married exemption by the amount by which his wife's income exceeded $250.

The second concession was that no tax was paid by a member of the Canadian Forces on amounts of pay and allowances payable in a taxation month in consequence of an upward adjustment in the month of his pay and allowance entitlements for the month.

The third concession permitted a member, who reported income from sources other than employment as a member, to calculate tax on this income commencing at the lowest percentage rate in effect for the taxation year.

An amendment (*1970-71-72, c.63*) to the Income Tax Act, which received Royal Assent on December 23, 1971, repeals section 66 of the Act under which these concessions were granted to members of the Canadian Forces who are now to be taxed on the same basis as other Canadians.

155. *Insufficient penalty for late payment of income tax.* In previous Reports (paragraph 130 in 1970) we have drawn attention to the substantial amounts of income tax remaining unpaid at March 31 of each year. We have suggested that the imposition of penalties for late payment, over and above the 6% which was payable on taxes paid after the due date, could be of material assistance to the Taxation Division of the Department of National Revenue in collecting its outstanding accounts.

Unpaid income tax at March 31, 1971 amounted to $425 million compared with $333 million at March 31, 1970.

An amendment (*1970-71-72, c. 63*) to the Income Tax Act, *R.S. 1952, c. 148,* which received Royal Assent on December 23, 1971, modifies the provision of the Act for payment of interest by the taxpayer and section 161(1) of the Act now provides that

> Where the amount paid on account of tax payable by a taxpayer under this Part for a taxation year before the expiration of the time allowed for filing the return of the taxpayer's income is less than the amount of tax payable for the year under this Part, the person liable to pay the tax shall pay interest at a prescribed rate per annum on the difference between those two amounts from the expiration of the time for filing the return of income to the day of payment.

Thus the rate of interest is no longer specified by the Act and changes are now possible without an amendment thereto.

156. *Inability to express an opinion as to the correctness of the accounts and financial statements of the Northern Canada Power Commission.* Our examinations of the records of Northern Canada Power Commission in recent years have disclosed inadequacies and weaknesses in the accounting and internal controls which were regularly drawn to the attention of the management. Last year the more serious of these were referred to in paragraphs 131 to 133 of our Report to the House of Commons. In December 1970 we were advised by management that "necessary action has already been taken or is being taken to correct and improve the Commission's accounting system and procedures where you have indicated weaknesses". However, in our examination during the year we found that the condition of the records and internal control had deteriorated to such an extent that it was not possible to express an opinion on the correctness of the Commission's accounts and

financial statements. As a consequence the Auditor General's Report to the Minister of Indian Affairs and Northern Development included the following:

> Due to the continuing unsatisfactory condition of the records, I am unable to express an opinion as required by section 77 of the Financial Administration Act on the validity of either the accounts or the financial statements for the year ended March 31, 1971. I have discussed the situation at length with the Commission who have now taken steps to correct the unsatisfactory condition during the current year.

Examples of the weaknesses are as follows:

1. FAILURE TO BILL CUSTOMERS FOR WORK DONE. Upon completion of work done for its customers, the Commission had failed to bill them to the extent of at least $1,211,000. The Commission has explained that there was a deliberate decision to defer a billing of $1,135,000 to the Department of Indian Affairs and Northern Development for expenditures on utilidor construction at Frobisher Bay, because the Department had no funds with which to make payment. In our opinion this is improper and is not in the best interest of Parliament.
2. DELAYS IN BILLING CUSTOMERS. There were frequent delays some as long as two months in the Commission's head office before billings for non-utility accounts were made.
3. INADEQUATE COLLECTION ACTION. The follow-up of outstanding accounts was unsatisfactory due to laxity and lack of proper supervision.
4. INADEQUATE RECORDING OF INVENTORIES. Perpetual fuel records for sixteen plants did not agree with physical quantities on hand and necessitated an adjusting entry of $119,000. Perpetual stores records at two plants did not agree with the physical quantities on hand and necessitated an adjusting entry of $63,000. There were delays of two months in the recording of stores issues from one plant.
5. INADEQUATE RECORDING OF CAPITAL ASSETS. The Commission's accounting procedures require an annual physical count of the capital assets held by each plant and subsequent agreement with the head office records. Counts from eight plants had not been checked. The accounts did not record the return of two gas turbines to a supplier and an adjusting entry of $89,000 was necessary. No record had been made with respect to fire damage and an insurance claim for $31,000 also necessitated an adjusting entry. Many capital asset work orders were not being closed out promptly upon completion of the work due in part to the lack of liaison between the accounting and engineering departments but also due to the lack of systematic enquiry by the accounting department as to the status of each.
6. INADEQUATE JOURNAL VOUCHERS. These frequently did not carry satisfactory explanations. For the month of March 1971 there were 588 journal vouchers as opposed to a monthly average of 150. Of the 588, 18 related to prior years' transactions and 106 related to prior months' transactions.
7. DELAYS IN RECORDING AND DEALING WITH INVOICES FROM SUPPLIERS. Numerous instances were noted where invoices from suppliers were not recorded and dealt with promptly. One such delay related to an invoice which was received ten months previously.

Following extensive discussions with the Chairman and members of the Commission, steps are being taken to reorganize the accounting and financial controls along lines which we believe should prevent any recurrence of this unfortunate situation.

157. *Expenditures made without proper authority.* In paragraph 131 of our 1970 Report, we noted that Northern Canada Power Commission had incurred expenditures prior to obtaining the approval of the Governor in Council or of the Treasury

Board or in excess of the estimated costs which had been approved. This situation has not been remedied, the following examples being noted during the year:

1. Section 6(3) of the Northern Canada Power Commission Act, *R.S., c. N-21*, provides that the Commission shall not with respect to any project undertake or enter into any contract, other than for maintenance or repairs, for the construction, making, erection, purchase or installation of any works, etc., involving a total estimated expenditure exceeding $50,000 unless the project has been approved by the Governor in Council. Five instances were noted in which expenditure exceeded the amount approved by the Governor in Council:

	Amount approved	Expenditure to March 31, 1971
Frobisher Bay—		
Additional generating capacity, fuel storage and utilidor structures	$ 1,400,000	$ 1,585,000
Expansion project, additional generating equipment	750,000	937,000
Yellowknife/Snare—		
Diesel plant projects	800,000	829,000
Norman Wells—		
Expansion projects, additional generating equipment	120,000	156,000
Taltson River—Twin Gorges—		
Expansion project	—	81,000

Bill C-193 "An Act to amend the Northern Canada Power Commission Act", which was given first reading in the House of Commons on November 16, 1970 includes a clause to repeal section 6(3) of the Act. When the Bill was being considered by the Standing Committee on Indian Affairs and Northern Development, a member of the Commission gave the following explanation of the clause:

> The next item, Clause 2 of the Bill, is more of a housekeeping item than anything else. It repeals Section 6(3) of the Act, which at the moment requires that the Commission submit to the Governor in Council, for approval, any intention to undertake a project or enter into any contract for repairs, maintenance, construction, etc., exceeding $50,000. It has been found that this was simply one step that was desirable in the early years of the Commission but now is redundant because there are three other steps that are required before the Commission may spend this sort of money.
>
> The first is the preparation, in accordance with Treasury Board requirements, of program forecast; the next is the submission of estimates to Treasury Board—in other words the normal procedures followed by other departments and agencies; and thirdly, for any amounts over $5,000, a submission to the Treasury Board to enter into a contract. This additional requirement of obtaining Governor in Council approval did indeed, in this day and age, seem a little unnecessary, and hence the reason for the suggestion that it be removed.

2. The Government Contracts Regulations provide that where a construction contract was entered into with the approval of the Treasury Board, the amount may be increased without further approval by not more than ten per cent or by fifteen thousand dollars, whichever results in the lesser amount. We have noted seven cases, including five which were referred to in last year's Report, in which the Commission had exceeded these limits. These contracts had been approved in the amount of $2,940,000 but expenditure totalled $3,499,000.

3. The Government Contracts Regulations require that the approval of the Treasury Board be obtained before a purchase contract exceeding fifty thousand dollars is entered into. The Commission has incurred expenditure of $53,236 on one contract without the approval of the Treasury Board or of the Governor in Council.

158. *Losses on Post Office services.* For a number of years (paragraph 134 in 1970) the attention of the House has been drawn to the continuing loss suffered by the Post Office on the handling of second class mail. This annual loss rose to a peak of $41.8 million in 1968-69 but dropped to $28.4 million in 1969-70 following increases in postal rates. Notwithstanding the recommendation of the Royal Commission on Government Organization that "an annual grant be made by Parliament in an amount sufficient to cover the costs of the Post Office in handling second class mail" and the recommendation of the Public Accounts Committee that "the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail", the loss absorbed by the Post Office has increased annually because postal rate increases have not kept pace with increasing costs.

In the meantime the overall loss on postal operations has been increasing, reaching an all-time high of $100,592,000 in 1970-71. This overall loss arises because of losses totalling $104,536,000 on the following services, for which costs and revenues and the comparable loss figures for the previous year are shown:

	1970–71				1969–70	
Service	Cost	Revenue	Loss	% of cost	Loss	% of cost
Mail—						
First class	$ 246,249,000	$ 215,307,000	$ 30,942,000	12.6	$ 525,000	.2
Second class	48,961,000	13,785,000	35,176,000	71.8	28,362,000	66.0
Third class	78,289,000	54,529,000	23,760,000	30.3	20,319,000	22.4
Fourth class	79,937,000	76,527,000	3,410,000	4.3	3,334,000	4.4
Government	22,956,000	22,770,000	186,000	.8	(2,414,000)	
Other—						
Money order	17,727,000	12,582,000	5,145,000	29.0	4,823,000	25.7
Registration	18,414,000	15,625,000	2,789,000	15.1	1,357,000	7.7
C.O.D.	7,511,000	4,799,000	2,712,000	36.1	2,159,000	29.2
Lock box	5,479,000	5,063,000	416,000	7.6	428,000	8.0
	$ 525,523,000	$ 420,987,000	$104,536,000		$ 58,893,000	

The above costs are all-inclusive in that they include the value of services provided to the Post Office by other departments. The revenue figures are also all-inclusive in that in addition to the cash revenue received by the Post Office for its services, they include the value of mail which the Post Office is required by the Post Office Act to handle without payment of postage, as well as the interest value of the balances in the Money Order Account although an offsetting charge for this interest is not recognized in the accounts of the Department of Finance which receives the benefit from these balances.

There was an increase in second class mail rates with effect from April 1, 1970, and increases in other rates which have taken, or are to take, effect subsequent to that date include: an increase from 6 to 7 cents in the basic rate for first class mail

on July 1, 1971 and a further increase to 8 cents on January 1, 1972; and increases in surface mail rates for third class mail and money order fees with effect from July 1, 1971.

159. *Allowances not reported for income tax purposes.* In paragraph 138 of our 1970 Report we stated that boot and glove allowances paid to Post Office employees since October 1968 were not being included in the earnings of employees reported for income tax purposes although the Taxation Division of the Department of National Revenue had ruled that the allowances were taxable under section 5(1)(b) of the Income Tax Act, *R.S. 1952, c. 148.* As a consequence income tax on payments of up to $592,000 in 1968 and up to $1,100,000 in 1969 had been lost to the Crown and we pointed out that no submission had been made to the Governor in Council requesting remission of the tax on this income.

On May 25, 1971 the Boot and Glove Remission Order was issued, under authority of Order in Council P.C. 1971-1011. This Order, which forgave the tax due on payments of the allowances made in 1970, has not been included in the listing of remissions granted in section 12 of Volume I of the 1971 Public Accounts in accordance with the requirements of section 17(8) of the Financial Administration Act.

There has been no remission with respect to the 1968 and 1969 payments so that forgiveness of the tax in respect of those two years still lacks the requisite authority.

160. *Allowances to land mail contractors for services not performed.* Because of the rotating strikes of postal employees during July and August 1970 some mail contractors were prevented from fulfilling the terms of their contracts for the pick-up and delivery of mail. Payments to the contractors for maintaining equipment and staff during the periods of the stoppage of mail service amounted to $328,000 for which no services were rendered.

161. *Recovery of the cost of training courses exclusive of language training.* During the year the Public Service Commission spent $1,495,000 compared with $1,058,000 in 1969-70 (see paragraph 140 of our 1970 Report) to provide departments and agencies with courses for staff development. However, with effect from April 1, 1970, some courses were provided on a cost-recovery basis and $685,000 was recovered, leaving a net charge to the Commission of $810,000. Beginning in 1971-72 training course costs, exclusive of language training costs, are to be fully recoverable and temporary financing of the cost of these courses is to be by means of a revolving fund authorized by Secretary of State Vote L120, Appropriation Act No. 3, 1971, *1970-71-72, c.46.* The amount outstanding in this fund at any one time is not to exceed $700,000.

162. *Language training costs.* One of the activities of the Public Service Commission is language training for which funds are provided by Parliament "to facilitate the use of two official languages in the Public Service and operation of

French and English language schools for public servants including curriculum and test development".

In 1970-71 expenditure by the Public Service Commission on language training was $7,038,000 compared with $4,962,000 in 1969-70. This amount includes the cost of facilities, teachers' salaries and other operating expenditures. In addition, costs relating to bilingualism are also being met from appropriations of other departments and agencies, examples being teachers' salaries, special language training units and fees paid to commercial language training schools. These additional costs in 1970-71 are estimated at $400,000 and appear to be rapidly increasing in 1971-72. Furthermore, the salaries and expenses of persons taking the language training courses are not included as costs of language training.

The planning, programming, budgeting system presently in use by the Treasury Board enables an intensive study to be made of feasible alternative ways of attaining defined objectives with a view to determining the approach most likely to achieve the greatest benefits for a given cost. The objectives describe what part of the total government responsibility the department is given as its particular responsibility and similarly a series of sub-objectives are developed leading to the division of the department's total responsibility into logical separate parts.

If such a system is to operate with maximum effectiveness, accurate all-inclusive costs are essential. In paragraph 140 of our 1970 Report we suggested that consideration should be given to having the language training program provide for the full cost of training including the salaries and expenses of persons taking the training. However, there has been no change in the past practice of leaving these costs in the various departmental appropriations.

163. *Eating facilities for Crown employees in public buildings.* In previous Reports (paragraph 142 in 1970) we have referred to the fact that eating facilities for government employees in public buildings are subsidized to a considerable extent because no charge is made by the Department of Public Works for space, fixed kitchen and serving counter equipment, tables, chairs, utility costs, etc. We observed that the Royal Commission on Government Organization had commented that, although it is common practice in the private sector to provide meals to employees at less than cost, such subsidies are carefully costed for purposes of management control. We pointed out that until the Department is in a position to isolate the cost of eating facilities, the extent to which those operations are subsidized cannot be determined and proper management control established. We understand that the Treasury Board Secretariat is in agreement.

In September 1969 the Treasury Board announced plans for a comprehensive review of policies and practices relating to the provision of eating facilities for Crown employees. On April 8, 1970 the Department submitted a full report to the Treasury Board detailing cost data of eating facilities under the jurisdiction of that Department. This was followed by advice from the Treasury Board Secretariat to

the Department in March 1971 that the Bureau of Management Consulting of the Department of Supply and Services had been asked to conduct a review of Treasury Board policy on certain aspects of employee services, including food services. We have been informed that the Bureau submitted a draft report to the Secretariat late in 1971 and is still engaged in completing the final report.

164. *Improper charge to 1970-71 appropriation.* In our 1970 Report (paragraph 143) we drew attention to an instance in which the Department of Public Works had charged an amount to an appropriation as an expense of the year and credited the holdback account. We expressed the opinion that the charge to the appropriation was not in order in the absence of Executive authority to terminate the agreement with the consultant concerned. This authority had not been obtained until July 1970.

A similar case was observed in 1970-71. A contract in the amount of $8,800 had been awarded for repairs to a departmental dredge. Drydocking of the equipment revealed unforeseen damage to the hull and hopper below the water-line, necessitating further work at an additional cost of $23,800. The total amount of $32,600 was charged to Public Works Vote 20 as an expense of the year and credited to the holdback account. Inasmuch as Executive authority to amend the contract was not received until July 1971, the charging of the increase in cost to 1970-71 was improper.

165. *Increasing accommodation rental costs.* In previous Reports (paragraph 141 in 1970) we have pointed to a continuing escalation in the rental outlay of the Department of Public Works. We expressed the opinion that costs are likely to be higher than necessary as long as the Department must absorb rental costs out of its own appropriations while the ultimate choice of accommodation rests with the client departments.

As the following comparison of rental costs for the past six years indicates, the upward trend continues:

	National capital area	Elsewhere	Total
1965-66	$ 7,671,000	$ 5,438,000	$ 13,109,000
1966-67	10,301,000	6,847,000	17,148,000
1967-68	14,271,000	12,945,000	27,216,000
1968-69	18,028,000	16,043,000	34,071,000
1969-70	20,824,000	19,019,000	39,843,000
1970-71	22,757,000	21,294,000	44,051,000

Space under lease in the national capital area at March 31, 1971 amounted to 6.2 million square feet compared with 5.9 million square feet at March 31, 1970.

In its First Report 1970-71, presented to the House on November 26, 1970, the Public Accounts Committee recommended that accommodation costs be made a charge to each department's appropriation rather than have the Department of Public Works pay a large part of this sum out of its own appropriation (see

Appendix 1, item 31). During November 1971 the Department circularized departments and agencies advising that, using the fiscal year 1972-73 as a pilot year for the refining of techniques and subject to the approval of the Treasury Board, it intended to commence charging for accommodation on April 1, 1973.

166. *Cost of unused space, Montreal, Que., and Toronto, Ont.* In 1967 the Department of Public Works entered into a five-year lease commencing September 1, 1967 at an annual rental of $87,600, to provide premises for a Design Centre in Montreal for the National Design Branch of the Department of Industry, Trade and Commerce. Leasehold improvements amounting to $191,000 were paid for by that Department.

On January 7, 1970 the Department of Industry, Trade and Commerce advised that budget restraints and changing program commitments made it necessary to close the Design Centres at Montreal and Toronto effective March 31, 1970, but that the premises should be retained until April 30 to allow time for disposal of products, display fitments, library and furniture. The Montreal Centre was sublet from May 1, 1970 to February 28, 1971 at a reduced rental of $1,500 per month, and later the lessor was paid $92,700 to terminate the lease as of the latter date. The net non-productive rental cost for the space at Montreal was therefore $150,700, without taking into account the cost of leasehold improvements.

Closing of the Design Centre at Toronto resulted in a non-productive outlay of $9,100, in connection with related warehouse facilities which had been leased for five years commencing March 1, 1968 at $10,700 per annum and had involved leasehold improvements paid initially by the lessor. The payment comprised three months rent, $2,700, and the amount outstanding with respect to the leasehold improvements, $6,400.

167. *Additional rental cost due to delay in occupancy, Ottawa.* During 1969 the Department of Public Works accepted an offer to lease 96,174 square feet of space in a newly-constructed building in Ottawa for ten years at an annual rental of $432,000. The accommodation was required primarily for the Department of Communications. The lease was to be effective from the date of occupancy, which was defined as the mean date between the first and last occupancy of the various floors.

The first occupancy occurred on April 1, 1969 when the Dominion Coal Board took over 4,112 square feet and the last on August 20, 1969 when the Department of Communications occupied its final 26,904 square feet, the resulting lease commencement date being June 10, 1969. However, representations were received from the lessor regarding the serious financial loss caused by undue delay in occupying the space reserved for the Department of Communications. Following a review of the circumstances the Department of Public Works established May 19, 1969 as the date the lease would have commenced had no delay taken place. Rent was paid from that date, but as occupancy had been taken on a staggered basis approximately $81,000 related to periods during which various areas had not been put into use.

168. *Additional cost due to inadequate lease wording, Ottawa.* Three leases entered into by the Department of Public Works for various areas in a new building in downtown Ottawa, commencing on different dates in 1967, all provide that in the event that municipal real estate taxes in any year exceed 120% of the tax imposed for the base year, the Crown will pay the portion of the excess applicable to the area occupied by it.

The Department had evidently intended that the initial tax figure be representative of a complete and occupied building, but the "base year" was defined as the 1967 municipal tax year, although the building was not taxable at commercial rates for the full year. The lessor filed a petition of right in December 1970 claiming $28,900 in excess taxes for the years 1968, 1969 and 1970, and payment in that amount was made in the following month.

The Department has since amended its standard tax escalation clause to describe the base year as "the first complete municipal taxation year following the date of commencement of this lease in which the premises are fully assessed and taxed, without rebate or concession, as a completed/renovated structure for the whole of such year". Had this been in effect in 1967 the amount payable as excess taxes would have been $1,500. Thus additional expense of $27,400 has been incurred to December 31, 1970 as a direct result of the inadequate wording of the agreements, and will continue at the rate of approximately $12,000 per year during the remaining terms of the leases.

169. *Additional costs due to construction delays, Jackson Building, Ottawa.* Early in 1968 the Department of Public Works obtained authority to engage consultants for the design and preparation of working drawings and specifications for, and subsequent supervision of, renovations to the Jackson Building. The estimated cost of the renovations was $1,523,500.

The building consists of two parts. The original section was erected in 1917 and purchased by the Crown in 1941, and the annex was added in 1942. The only drawings available were those of the annex. The new planning proceeded on the assumption that the structural frames of the old part of the building and of the annex were similar.

The renovations were carried out under a contract awarded in 1969 at a fixed price of $2,575,000. The final contract cost was $3,097,000, the increase being largely attributable to two factors. The major factor was that demolition work had revealed the structural frames of the two parts of the building to be dissimilar. A new design for the exterior walls was required which resulted in an increase in construction costs of $148,000 and a delay of five and one-half months. The second factor, belated submission of requirements by the prospective occupants, resulted in an increase of $86,000. As a result of the delays, non-productive outlays totalling $178,000 were made in settlement of claims from the general contractor and subcontractors for extra expenses, including winter costs and increased material, labour and overhead costs.

In addition, non-productive payments of $10,000 were made to the consultants covering abandoned work in connection with electrical downfeed services, partition layouts, a cafeteria addition and a revolving door.

170. *Additional cost due to construction delay, Montreal, Que.* In 1969 the Department of Public Works awarded a contract at a fixed price of $3,466,000 for improvements to the postal terminal building in Montreal.

The specifications required that the schedule of work of the contractor and his subcontractors be prepared so as to prevent undue interference with the postal operations and that the postal services be given priority over the contractor's work. The sequence of work was established by the Post Office Department after the contract had been awarded. The general contractor and the subcontractors, alleging that the schedule restricted their activities to such an extent that it not only changed the work sequence but could be interpreted as a breach of contract, submitted a claim in the amount of $662,500 for additional costs. The delay claim was later reduced to $302,600, and following further negotiation was settled during the year for $148,000.

The cost of the work, including this payment and approved extras and additions, had reached $5,172,000 at March 31, 1971.

171. *Unused plans for construction of truck tunnel, Ottawa.* Paragraph 85 of our 1970 Report dealt with a contract entered into by the National Capital Commission with a firm of consulting engineers for drawing up plans and specifications for construction of a truck tunnel and related roadways system to service the planned Department of Transport headquarters building and future buildings in the adjacent area. When it was later decided to forgo construction of the truck tunnel the Commission negotiated a settlement with the firm. Expenditures totalling $165,000 were incurred on the contract, of which $139,000 was identifiable with the tunnel and therefore non-productive.

The plans for the building were prepared by consultants commissioned by the Department of Public Works in 1966. In 1969 the National Capital Commission provided the Department of Public Works with complete documents so that the tunnel work could be incorporated into the contract for construction of the building. Later in the year a decision was reached to have the structure serve as headquarters for the Department of National Defence instead of the Department of Transport, without a significant change of plans.

During 1969-70 and 1970-71 the consultants engaged by the Department of Public Works were paid $41,000 for the amalgamation of the tunnel and roadway documents with those for the building, and later for the revision of the plans to eliminate the tunnel concept in favour of an access ramp.

172. *Additional cost of Fiddle River Bridge, Jasper National Park, Alta.* In our 1968 Report (page 113) we referred to a contract entered into in 1963 by the

Department of Public Works, on behalf of the then Department of Northern Affairs and National Resources, for the construction of a bridge and approaches at Mile 29.8 of the Jasper-Edmonton Highway. We pointed out that although the amount of the contract had been \$204,000, the actual cost was \$327,000, subject to a further contingent expense of \$19,000. The increase in cost stemmed from supplementary requirements and variations from tender quantities, amounting to \$31,000, and from payment of \$92,000 in respect of a claim based primarily on delays in the work following a flash flood in 1964. The flood had caused extensive damage to the channel dykes and rip-rap and had undermined the east abutment.

The contingent expense of \$19,000 was paid in 1970-71, thereby increasing the contract cost to \$346,000. It constituted part of a claim of \$27,000 for flood damage repairs which the contractor's insurer had declined to acknowledge on the ground that there had been an error in the design. The remaining \$8,000 had been included in the payment of \$92,000 made earlier.

In 1969 another flood removed most of the rip-rap from around the bridge, together with the embankment at the east abutment, and cut down the channel to the top of the footing at the east abutment and the centre pier. Plans were prepared embodying the changes necessary to ensure the permanent safety of the structure. The related contract, awarded in November 1969, was completed during 1970 at a cost of \$177,000.

173. *Preliminary expenditure on projects later deferred indefinitely.* As the following cases illustrate, the deferral of a project, quite often because funds for construction are unavailable, brings into question the extent to which the associated plans may be used in the future. Because the ultimate value of the work done cannot be determined in these instances, the degree to which the planning costs may be regarded as non-productive is not assessable at this time.

1. PARKING FACILITIES, OTTAWA. In 1964 the Department of Public Works retained a firm of consulting engineers to perform preliminary studies, surveys and investigations necessary to the submission of a report on the feasibility of constructing parking facilities on Parliament Hill. Later in the year, following receipt of the consultants' report and recommendations, they were requested to design and prepare tender documents for a five-level structure to be located on the escarpment west of the Centre Block. The preliminary estimate of the cost of construction was \$2,910,000.

   By 1967 the estimated construction cost had risen to \$6,700,000, due in part to expansion of the proposal to accommodate a greater number of vehicles. When the scheme was submitted to the Treasury Board for approval it was turned down because of the high "per stall" cost and because of the need at the time to curtail non-essential projects. This was followed in 1969 by termination of the consultants' agreement and in December 1970 by payment of the final account.

   Payments to the consultants consisted of \$126,700 for preliminary services and an apparent non-productive element of \$290,300 for design and preparation of tender documents. The Department has indicated that the plans will be retained for future use, should the need arise.

2. CIVIL DEFENCE COLLEGE AND EMERGENCY GOVERNMENT RELOCATION UNIT, ARNPRIOR, ONT. In 1965 the Department of Public Works, on behalf of the Department of National Defence,

engaged a firm of architects for the design, preparation of complete working drawings and specifications, and the subsequent supervision of construction of a combined Civil Defence College and Emergency Government Relocation Unit at Arnprior.

In November 1967 the Department of Public Works was informed that, as part of a program to reduce spending, construction of the facility was being deferred, but that the design work should be completed. Authority was obtained in 1969 to compensate the consultants for all work performed, rather than impose undue financial hardship by withholding indefinitely that portion of the fee not normally payable until tenders are received. It was stressed that the agreement with the consultants was not being terminated. With the payment made late in 1969 expenditure on the project reached $66,500, of which $63,700 related to design and $2,800 to soils investigation.

3. OFFICE, LABORATORY AND HEADERHOUSE, EXPERIMENTAL FARM, REGINA, SASK. In 1966 a firm of consultants was commissioned by the Department of Public Works, on behalf of the Department of Agriculture, to design and prepare complete working drawings and specifications for and subsequently to supervise construction of an office, laboratory and headerhouse building at the Regina Experimental Farm.

The project was delayed until July 1969 and was then deferred indefinitely. This in turn led to a decision to terminate the consultants' agreement, with the understanding that should the scheme be reactivated and the consultants re-engaged no further fees would be payable for the design and revision of plans, specifications and contract documents.

The final payment made in January 1971 brought the total fee outlay to $56,900.

4. OFFICE, LABORATORY AND HEADERHOUSE, EXPERIMENTAL FARM, MORDEN, MAN. Item 14 of paragraph 211 of our 1968 Report dealt with the engagement of consultants in 1965 by the Department of Public Works, on behalf of the Department of Agriculture, for the design, preparation of working drawings and specifications, and subsequent supervision of construction of a composite office, laboratory and headerhouse building at the Morden Experimental Farm. After the preliminary design had been completed the project was held in abeyance until August 1966. In 1967 the drawings were abandoned in favour of another type of structure and the consultants were paid $5,500 for all work previously carried out.

The Department of Public Works was requested in April 1968 to delay the calling of tenders until further notice, due to financial constraints. In July 1969 the project was deferred indefinitely, and in 1970 it was concluded that the consultants' agreement should be terminated. The consultants agreed that no further fees would be payable for the design and revision of plans, specifications and contract documents if the commission was reactivated at a later date.

Fees, exclusive of the non-productive expenditure of $5,500 reported earlier, have amounted to $54,600. The final payment was made in January 1971.

5. ADDITIONS AND ALTERATIONS, NATIONAL RESEARCH COUNCIL ADMINISTRATION BUILDING, OTTAWA. Early in 1967 the Department of Public Works, on behalf of the National Research Council, entered into an agreement with an architect for the design, preparation of complete working drawings and specifications, and subsequent supervision of construction of additions and alterations to the Council's administration building. Later, the requirement for alterations was removed from the arrangement and dealt with separately, with a view to the Council carrying out that part of the work with its own forces.

In October 1967, by which time tenders had been received for the addition to the administration building, the Council informed the Department that due to a shortage of funds the project was deferred indefinitely. A payment made in the next month and based on the lowest tender brought to $16,600 the amount expended for design of the addition. There is no evidence at the present time that the work will be proceeded with.

6. RECEPTION CELL BLOCK, COLLINS BAY PENITENTIARY, COLLINS BAY, ONT. In 1966 the Department of Public Works, on behalf of the Canadian Penitentiary Service, appointed a firm of architects to provide consulting services for various projects forming part of a rehabilitation construction program at Collins Bay Penitentiary.

One of the projects was a reception cell block. The estimated cost of the structure, initially $80,000, was set at $220,000 in December 1967. When tenders were called in 1968 and the lowest was found to be $274,500, no bid was accepted and the consultants were requested to redesign the building within the estimate of $220,000.

On March 19, 1970 the Canadian Penitentiary Service informed the Department that construction had been deferred indefinitely and that all design work should be terminated. In July 1970 a final payment was made to the consultants which brought the total fee to $15,200, consisting of $7,500 for design, based on an estimated construction cost of $226,000, and $7,700 for revisions.

174. *Subsidization of irrigation projects.* In previous Reports (paragraph 155 in 1970) we have noted that expenditure by the Prairie Farm Rehabilitation Administration on two irrigation projects in Alberta and six in southwest Saskatchewan greatly exceeded revenue and, with minor exceptions, that charges for water remained unchanged.

The same situation prevailed in 1970-71 when the excess of expenditure over revenue totalled $1,884,000 compared with $1,570,000 in the previous year. Expenditure and revenue for the year ended March 31, 1971 were as follows:

	Bow River irrigation project	St. Mary irrigation project	Irrigation areas in southwest Saskatchewan
Irrigable acres	120,000	300,000	25,000
Expenditure—			
Administration, operation and maintenance	$ 1,135,000	$ 317,000	$ 357,000
Construction	364,000	81,000	102,000
	1,499,000	398,000	459,000
Revenue—			
Water charges	129,000	94,000	57,000
Other	144,000	6,000	42,000
	273,000	100,000	99,000
Excess of expenditure over revenue	$ 1,226,000	$ 298,000	$ 360,000

When officials of the Prairie Farm Rehabilitation Administration appeared before the Public Accounts Committee on November 25, 1971 they disclosed that the transfer of the Bow River and St. Mary irrigation projects to the Province of Alberta was under negotiation.

175. *Inadequate management of motor vehicle operations.* In paragraph 156 of our 1970 Report we referred to the continued under-utilization of cars owned by the

Prairie Farm Rehabilitation Administration, the introduction of a monthly vehicle costing report, the desirability of a study of the use of trucks and special-type vehicles and the introduction of a new motor vehicle management policy by the Administration.

At March 31, 1971 the Administration's fleet consisted of 418 vehicles of all types comprising 317 trucks and special-type vehicles and 101 cars, not including five on loan to the Agricultural and Rural Development Administration. During the year 26 cars and five trucks were traded in on 30 cars and one truck.

The total mileage travelled in 1970-71 by all cars including privately-owned cars declined by 148,000 miles from 2,720,000 in 1969-70 to 2,572,000 in 1970-71. Trucks and other vehicles travelled a total of 2,958,000 miles—a slight increase over the mileage of the previous year.

By March 31, 1971 the number of government-owned cars which travelled less than 10,000 miles during a year had been reduced from 51 to 13, six of which travelled under 5,000 miles. Included in the number of trucks and special-type vehicles are 36 which individually travelled less than 5,000 miles during the year. Of these, nine were at the Indian Head Tree Nursery, six at the soil mechanics laboratory in Saskatoon and four each at the Bow River project and the South Saskatchewan River project.

Although planned for 1970-71, no study of the use of trucks and special-type vehicles had been made by March 31, 1971. Administration officials appearing before the Public Accounts Committee on November 25, 1971 informed the Committee that the study was under way and would be completed shortly.

During the year the Department of Supply and Services introduced a new Fleet Management Information System which includes a comprehensive Motor Vehicle Monthly Cost Analysis Report and a Motor Vehicle Monthly Detail Report to be prepared from data submitted by the operating section. This new System has now been applied to the Administration's vehicles and, when it becomes fully operational, should provide adequate data for the control and administration of these vehicles, at which time the Administration's own computer-produced vehicle costing report will be discontinued.

176. *Subsidization of community pastures.* Since the Prairie Farm Rehabilitation Act, *R.S., c. P-17,* was amended in 1937 to cover land utilization, the Prairie Farm Rehabilitation Administration has constructed 92 community pastures comprising 2.4 million acres on marginal and sub-marginal land, and an additional four are in course of construction. Ninety of these pastures, including seven on Indian Reserve land, are in operation, 20 being located in Manitoba, 69 in Saskatchewan and one in Alberta. In the 1970 pasture season there were 5,549 patrons.

Capital construction costs have amounted to $13,470,000 since inception in 1938 including expenditure during the year of $1,005,000.

Pasture operating costs of $2,721,000 were reduced by $235,000 representing the increase in the value of the bull inventory, leaving $2,486,000 as the operating cost for the year, of which $1,900,000 is regarded as direct pasture operating costs. Revenues amounted to $1,754,000 consisting chiefly of grazing fees, $1,098,000, and breeding fees, $368,000, with the balance coming mainly from the sale of bulls, and from surface leases and house rentals. The resulting deficit, without making any provision for depreciation or the cost of capital employed, was $732,000.

The Administration's policy is to have revenue cover the direct costs of operations but this goal was not achieved in 1970-71. The last increase in grazing fees occurred in 1963.

A study by the Administration of the present and future role of the community pasture program is scheduled for completion in 1972.

177. *Joint auditing arrangements with respect to provincial corporations financed from federal funds.* Reference has been made in previous Reports (paragraph 159 in 1970) to the appointment of the Auditor General of Canada as joint auditor with various public accounting firms of provincial corporations formed to facilitate and promote research into the utilization and development of manpower resources. Costs of these Corporations, which are incorporated under provincial legislation, are borne by Canada.

The following summary shows the payments made to each Corporation by the Department of Regional Economic Expansion during the year and the cumulative payments to March 31, 1971:

	Incorporated	1970–71	Cumulative to March 31, 1971
Nova Scotia NewStart Inc.	June 29, 1967	$ 567,000	$ 3,174,000
Saskatchewan NewStart Inc.	August 10, 1967	1,186,000	2,951,000
Alberta NewStart Inc.	August 11, 1967	1,213,000	5,724,000
Prince Edward Island NewStart Inc.	August 23, 1967	953,000	2,795,000
New Brunswick NewStart Inc.	May 28, 1969	723,000	1,023,000
Manitoba NewStart Inc.	July 10, 1969	1,000,000	1,250,000
		$ 5,642,000	$ 16,917,000

The accounts and financial statements of each of these Corporations for their fiscal years ended on December 31, 1970 or March 31, 1971 were examined and reported upon by the joint auditors.

In the periods reported upon these Corporations received grants from Canada totalling $6,043,000 and had other income of $145,000, mainly interest on bank deposits and short-term investments, and rental income. In the same periods the Corporations spent $5,604,000 for operating costs (including $3,536,000 for personnel costs) and $920,000 for buildings, office furniture and equipment, training equipment and leasehold improvements.

Included in the fixed assets acquired was a Cessna 185 aircraft purchased by Manitoba NewStart Inc. in August 1970 for $15,000, before departmental approval was received. This aircraft suffered an engine failure, possibly due to oil dilution, during a flight from Winnipeg to The Pas in December 1970 and had to make a forced landing on a highway in northern Manitoba. As the Corporation was unwilling to bear the cost of the engine repairs estimated at $7,000, the aircraft was turned over to the Department of Regional Economic Expansion and declared surplus for disposal through Crown Assets Disposal Corporation. Sale of the aircraft by Crown Assets Disposal Corporation for $6,500 resulted in a loss of $8,500, which is not reflected in the accounts of Manitoba NewStart Inc.

178. *Opportunities for Youth Program.* This program was announced in the House of Commons by the Prime Minister in March 1971. It envisaged provision of public funds for projects suggested by individuals, groups or organizations which would create new services and activities involving to the greatest extent possible employment of students completing their secondary and post-secondary education. The projects were to be carried out during the summer of 1971. The administrative responsibility for the program was given to the Secretary of State.

As the program had not been provided for in the normal manner in the Estimates for 1971-72, it was initiated with funds from 1971-72 Treasury Board Vote 5—Government Contingencies Program.

Included in 1971-72 Supplementary Estimates (A), which were tabled in the House on November 19, 1971, is Secretary of State Vote 41a—Citizenship Development—Opportunities for Youth $24,712,000. It is expected the cost will approximate $23,400,000 representing expenditure on some 2,300 projects.

The Audit Office is currently completing test examinations of expenditures made under this program during the 1971-72 fiscal year and will report thereon to the House next year.

179. *Excessive charges for the supply of water to penitentiary, Cowansville, Que.* For the past two years (paragraph 160 in 1970) we have reported that the amount being paid for water at the Cowansville penitentiary was high both in relation to charges to other users and to consumption and that the water was so inferior in quality that the Canadian Penitentiary Service had to install a chlorinator at a cost of $8,300. We also stated that, although in May 1969 the Treasury Board approved entry into an agreement with the Town of Cowansville for the supply of water for a

ten-year period commencing April 1, 1964, the agreement had not been signed as the Penitentiary Service was attempting to obtain a provision in the agreement for renegotiation of the rate at the end of the period.

The amount due the Town for the period April 1, 1964 to March 16, 1966, during which time the penitentiary was under construction, was $35,750. A payment of $25,000 was made in July 1969 but the balance of $10,750 was withheld pending the Town's acceptance of the provision for renegotiation of the rate. We commented that since the Penitentiary Service did not take over the institution from the construction contractor until March 17, 1966 the $25,000 advance payment, and the $10,750 balance when paid, must be regarded as non-productive.

The balance of $10,750 was paid on April 22, 1971 although the agreement with the Town was not signed until November 1971. The agreement provides that upon its expiry on March 31, 1974 the Penitentiary Service will pay for actual metered consumption at the rate then in force for other users, or at a negotiated rate.

The Public Accounts Committee considered this matter at its meeting of June 10, 1971 and in its Sixth Report to the House on June 30, 1971 pointed to the perils of entering into arrangements before well thought out contracts are signed. "In this case", it stated, "provision in writing should have been made for standards of potability; the Penitentiary Service has had, so far, no choice but to accept whatever water is delivered, regardless of quality. Your Committee opposes the practice of entering into commitments before contracts are signed."

180. *Subsidized rental accommodation, Drumheller, Alta.* In the past two years (paragraph 161 in 1970) we have commented on a leasing arrangement entered into by the Canadian Penitentiary Service to provide subsidized rental accommodation for staff of the penitentiary at Drumheller. We reported that if all the apartments that had remained vacant since they became available had been occupied by penitentiary staff, the subsidization would have been approximately $15,000 less each year.

During the year rentals paid under the lease totalled $92,000, of which $60,000 was recovered from employee-occupants, leaving $32,000 as the amount of the subsidization. If the ten apartments which were vacant during the year had been occupied by penitentiary staff, the subsidization would have been approximately $12,000 less.

Subsequent to the year-end five employee-occupied apartments were vacated and steps have been taken by the Penitentiary Service to rent to outsiders any apartment not required for penitentiary employees. As at September 16, 1971, 15 of the 30 apartments were rented to Service employees, six to outsiders at cost and nine were vacant.

On June 10, 1971 the Public Accounts Committee discussed the problems arising from the provision of subsidized rental accommodation for employees with

the Deputy Solicitor General but made no comment or recommendation in its Sixth Report to the House of Commons on June 30, 1971.

181. *Irregular payments to aircraft manufacturer.* In paragraph 120 of this Report, reference is made to the payment of $4.2 million to an aircraft manufacturer on March 23, 1971 in connection with the purchase of eight aircraft. This payment was charged to a 1970-71 appropriation of the Department of National Defence notwithstanding the fact that no contract had been signed prior to the year-end, nor had delivery of any aircraft been made.

During the period December 24, 1970 to March 24, 1971 progress payments of $2.2 million were made to the same manufacturer in connection with the purchase of five of the same type of aircraft for the Royal Canadian Mounted Police, the charge being to Solicitor General Vote 25. As in the case of the purchase of aircraft for the Department of National Defence, no contract had been signed prior to payments being made nor had delivery of any of the aircraft been made. The circumstances are as follows.

In November 1970 the Treasury Board approved acquisition by the Royal Canadian Mounted Police of five utility aircraft on condition that the contracting be done by the Department of Supply and Services. The authority provided for a maximum cost per aircraft of $571,300 and for progress payments of 90% to be paid by March 31, 1971. The Board also asked that the manufacturer be advised of the award by December 1, 1970 in order to avoid a possible price increase. On November 30, the Department advised the manufacturer of its intention to enter into a contract for these five aircraft.

The first progress claim dated December 24, 1970, amounting to $1,295,000, was paid by the Department of the Solicitor General without certification by the Department of Supply and Services and, notwithstanding the fact that no contract had yet been drawn, the next three progress claims were paid on the certification of the Department of Supply and Services that they were consistent with the progress of the work and conformed to the terms of the contract.

A contract was drawn dated March 23, 1971 and submitted to the manufacturer for acceptance. This document provided for an average price per aircraft of $578,900 and for progress payments to a maximum of $2,352,000. The document was signed by the manufacturer on April 13, 1971. However, as his acceptance was subject to certain conditions which have not yet been accepted by the Crown, there is still no formal contract.

The five aircraft were delivered to the Royal Canadian Mounted Police during the period June 24, 1971 to July 27, 1971.

Thus, progress payments aggregating $2.2 million have been paid from Solicitor General Vote 25 contrary to section 27 of the Financial Administration Act which provides that no payment shall be made unless the Minister certifies

where a payment is to be made before the completion of the work, delivery of the goods or rendering of the service, as the case may be, that the payment is in accordance with the contract.

182. *Expenditure charged to the wrong appropriation to avoid lapsing.* In February 1971 the Department of Public Works awarded a contract for the renovation of a building in Edmonton at a cost of $446,000, including the supply and installation of certain special equipment costing $83,000 which was required by the Royal Canadian Mounted Police who were to occupy the building. The Royal Canadian Mounted Police made provision in their appropriations for the cost of the special equipment, with the balance of the cost of the contract to be borne by the Department of Public Works.

At the year-end the contractor had been paid $149,000 in progress claims, of which $23,000 was applicable to the portion of the contract payable by the Royal Canadian Mounted Police. However, as the latter had not provided funds in the following year for their portion of the contract costs, they asked the Department if their full share of $83,000 could be expended prior to the year-end "whether [the funds] be used for the purpose for which they were intended or applied to the renovations portion of the contract." The Department complied with this request.

Thus, in order to prevent funds from lapsing in accordance with the requirements of section 30 of the Financial Administration Act, the appropriation of the Royal Canadian Mounted Police has been charged with $60,000 for which services had not been provided at the year-end.

183. *Improper use of remission order to exempt contract from sales tax.* Order in Council P.C. 1955-18/717 of May 19, 1955, provides remission under section 17 of the Financial Administration Act of sales tax on ". . . payments made or to be made by the Crown under that part of any contract relating to research and development entered into by the Department of Defence Production on behalf of the Canadian Armed Services and the Defence Research Board . . ."

We have noted a number of instances where the Department of Supply and Services has referred to this Order in Council as the authority for exempting from sales tax, payments under development assistance contracts entered into on behalf of the Department of Industry, Trade and Commerce which have no relationship with the Canadian Armed Services or the Defence Research Board. This, in our opinion, is an improper use of the remission order. The following particulars are given as an example.

During the period March 1967 to September 1969 the Department of Supply and Services, acting on behalf of the Department of Industry, Trade and Commerce, entered into three agreements with a contractor to share in the cost of the design, development, fabrication and testing of prototype controls and components for gas turbine engines. The agreements provided respectively for a 50% Crown share of the

costs to a maximum of $26,950, a 50% share to a maximum of $47,135 and a 31% share to a maximum of $151,192. The first agreement stipulated that

> the costs payable by the Minister to the contractor hereunder shall not exceed the sum of $26,950, Federal Sales Tax included.

The two subsequent agreements made no mention of sales tax.

In June 1970, following an audit of the contractor's accounts for the period October 1966 to February 1970 by the Department of National Revenue, Customs and Excise Division, he was assessed arrears of sales tax of $67,000, including penalty. Included in this amount, which was net of certain credits, was sales tax of $69,000 applicable to the three development assistance agreements.

In August 1970, to provide the company "with some measure of relief from the assessment", the Department of Supply and Services amended each of the three agreements to incorporate the following clause:

> In accordance with Order-in-Council P.C. 1955-18/717, sales tax shall not be exigible on the design and development work covered by this agreement.

We have been advised that, as a result of the amendments, the sales tax assessment has been reduced by $60,000, the portion of the assessment applicable to the research and development costs under these contracts.

184. *Shared costs under research contract not verified.* In previous Reports (paragraph 165 in 1970) we noted that the Audit Services Bureau of the Department of Supply and Services was unable to verify a claim of $49,000 for the Crown's share of a shared-cost research contract because the company which had done the work was unable to produce adequate records and because of the inadequacy of its internal control in the earlier years of the contract. Subsequently the Bureau, although still unable to verify the claim, reported that, based on records produced, the company had overclaimed for labour costs and had been overpaid $11,000.

After hearing evidence on April 21, 1970, the Public Accounts Committee, in its First Report 1970-71 presented to the House on November 26, 1970, stated:

> As this case is not complete, your Committee reserves its final opinion on this matter pending further inquiry, but expresses the view that the Department or any department should not pay any moneys to any firm or individual unless there are available adequate supporting records of the transaction.

The $11,000 overpayment of labour costs was recovered from the company in October 1970, and in April 1971 the Treasury Board approved amendments to the contract deleting the provision for mandatory audit and establishing a final price for the work of $38,000.

185. *Limited competition for government business.* For the past four years (paragraph 166 in 1970) we have referred to the engraving and printing of postage stamps, other revenue stamps and labels, bonds, paper currency, passports and other docu-

ments and forms for the Government and the Bank of Canada. This work has been carried out almost exclusively by two Ottawa firms for many years and we have pointed out that limited competition for government contracts creates a risk of excessive profits at the expense of the Crown.

A study team of representatives of interested departments and agencies was established in 1968 "to develop a procedure that will provide the most economical procurement of security printing consistent with the standards of security and quality required and the viability of the two existing commercial sources". The study team found that the contracts generally extended over many years and were allocated to one or the other of the two firms rather than awarded on the basis of tenders. However, the conclusions of the study team as to the most satisfactory procurement methods and procedures were not unanimous and no decision as to future policy was made.

Security printing has now been centralized in the Department of Supply and Services. However, during the year tenders remained limited to the same two Ottawa firms.

On April 29, 1971, the Public Accounts Committee considered this question and in its Sixth Report 1970-71 dated June 30, 1971, stated (see Appendix 1, item 38):

> Your Committee is of the opinion that security printing, such as postage stamps, revenue stamps, labels and passports, should be procured through the Department of Supply and Services, as for other goods as envisaged by the Government Organization Act, 1969, *1968-69, c.28.* Also, as existing procurement contracts expire, competition should be broadened to include, in competitive tendering, qualified Canadian firms.

In informing us of the consolidation of procurement of security printing within the Department, the Deputy Minister pointed out that this did not include the printing of postage stamps which was being done under contracts expiring in the years 1972 to 1974 and of paper currency for which the Bank of Canada wishes to retain responsibility. The Department also stated that the major obstacle to achieving greater competition was the insistence of user departments on steel engraving for which no one in Canada, other than the two Ottawa firms, is equipped. Its inquiries into practices in other countries had indicated that alternative methods of security printing in Canada should be investigated.

186. *Additional costs due to acquisition of printing equipment under lease-purchase agreements.* Because budget provisions for capital expenditures have been insufficient, the Canadian Government Printing Bureau has for several years rented, under lease-purchase agreements, a large quantity of printing equipment for use in the 86 small printing units located across Canada. Almost all of the equipment has eventually been purchased after rental periods varying from 4 to 36 months. The rental rates do not include maintenance. The agreements provide that a portion of the rentals paid, 70% to 90% depending on the period of rental, may be applied against the original purchase price. Both the rental expense and the net purchase

cost of the equipment have been charged as operating expenses to the Canadian Government Printing Bureau Revolving Fund.

In 1970-71 the Printing Bureau purchased 90 pieces of equipment which had formerly been rented. The combined net purchase cost plus rentals paid amounted to $419,000, or $50,000 more than the original purchase price.

At March 31, 1971 the Bureau had $601,000 worth of equipment for which a monthly rental of $23,000 was being paid. Total rental paid to that date was $302,000 of which $210,000 was applicable to equipment installed prior to April 1, 1970.

187. *Errors in salary payments by the Central Pay Division.* The Department of Supply and Services is responsible for the verification of documentation and the calculation of the pay of the majority of federal public servants. Some 160,000 persons are paid by the Department's Central Pay Division in Ottawa and some 80,000 by various other paying offices of the Department.

In testimony before the Public Accounts Committee on April 27, 1971, the Deputy Minister of Services stated that the improvements introduced by the Services Administration in both organization and staff training, which we referred to in paragraph 169 of our 1970 Report, were designed to cope with the problems experienced in the latter part of 1968-69 and to make the best of the present pay system. He also stated that a completely new and highly automated pay system had been under development for more than a year and was expected to be in operation late in 1972 (later departmental estimates indicate 1973) and that an independent internal audit of pay transactions would be introduced at the same time. The Treasury Board approved the proposed system in October 1971.

Our test examination of Central Pay Division individual pay accounts is designed to determine that each account examined is correct to the date of audit. Thus the examination invariably results in the discovery of errors made in periods prior to the year under review. The incidence of error in the accounts in 1970-71 or prior years relating to regular current salaries examined in 1970-71 continued on a downward trend, fewer errors being disclosed than in the preceding year. At the same time the examination indicated a greater incidence of error in retroactive adjustments, but few of the retroactive salary adjustments reviewed had been paid in 1970-71. Miscalculation of the length of the retroactive period caused the majority of these errors while failure to use the correct previous and revised salary rates was the second most significant cause.

188. *Errors in Public Service Superannuation Account pension and contribution calculations.* In our Reports to the House for a number of years (paragraph 170 in 1970) we have pointed out that our annual test audit of the superannuation accounts continued to disclose a high incidence of error in pension and contribution calculations. The Public Accounts Committee has recorded concern that the matter was taking so long to be corrected and requested the Auditor General to continue to keep the Committee fully informed. (See Appendix 1, item 4.)

In 1969-70 a Compensation Services Branch was created within the Department of Supply and Services with responsibility for administrative and other services required for the disbursement of pay to public servants and for superannuation and other employee benefit plans. Administrative procedures in the Superannuation Division were strengthened and we reported last year that new staff training methods had been introduced and that the internal audit was being improved and separated from the normal processing procedures, a step recommended by the Audit Office for many years.

The Deputy Minister of Services, appearing before the Public Accounts Committee on April 27, 1971, tabled a statement in which he outlined administrative changes effected since April 1, 1969.

The error rate disclosed by our 1970-71 test of superannuation benefits and contributions decreased slightly from that shown by our 1969-70 audit but, in our opinion, it is still unacceptable. A significant percentage of the errors arose because clerks in the Superannuation Division either misinterpreted or overlooked the applicable statutory or other authorities. More intensive training appears to be required in this respect. An even larger percentage of error resulted from the Central Pay Division's failure either to report retroactive salary revisions paid to annuitants whose service had ended during the retroactive period, or to implement annuity adjustments authorized by the Superannuation Division. It would appear that the adequacy of the relative administrative controls should be reviewed.

189. *Termination of payment of pension allowances when a child reaches maturity or when a widow remarries.* The Public Service Superannuation Act, *R.S., c. P-36,* provides that, upon the death of an annuitant, or of a contributor entitled to an annuity, immediate annual allowances shall be paid to his widow and to or for dependent children. The Act provides further, in the case of the widow, that the allowance shall continue until the end of the month in which her death occurs, with a mandatory direction that payment of the allowance shall be suspended in the event of her remarriage.

The Act, for many years, had also provided for payment of an allowance for each child of the contributor who is less than eighteen years of age. An amendment (*1968-69, c.29),* effective April 1, 1969, continued this provision and extended entitlement to each child who, being eighteen or more years of age but less than twenty-five years of age, is unmarried and is in full-time attendance at a school or university substantially without interruption subsequent to his eighteenth birthday or the contributor's death, whichever occurs later.

Prior to this amendment the Superannuation Division of the Department of Supply and Services since 1924 had suspended widows' allowances on the day of remarriage, and had terminated children's allowances on the eighteenth birthday. However, following the 1969 amendment, administrative problems which arose because of varying terminal dates for the academic year led the Superannuation

Division to request a ruling as to the propriety of paying a child's allowance to the end of the month in which the relative academic year ended.

The Director of the Pensions and Insurance Division of the Treasury Board Secretariat, after seeking legal advice, took the position that the Act as presently worded provides sufficient authority to continue to pay an allowance to a child until the end of the month in which an academic year ends and, "to be consistent", recommended a reversal of the Superannuation Division's long-standing policy of discontinuing payment as of a widow's or student's wedding day, or as of a child's eighteenth or twenty-fifth birthday. Accordingly a Superannuation Division instruction dated July 15, 1969 directed that, effective April 1, 1969, payments are to be made for the whole month in which a child either attains age twenty-five, marries or ceases full-time attendance at school or university and, effective August 1, 1969, children's allowances are to be paid to the end of the month in which the eighteenth birthday occurs and, where a widow remarries, her allowance is not to be suspended until the end of the month in which she marries.

This question also arose with respect to allowances to widows and children payable under the Canadian Forces Superannuation Act, *R.S., c. C-9,* and the Royal Canadian Mounted Police Superannuation Act, *R.S., c. R-11.* Notwithstanding a legal opinion expressing doubt that these allowances under the Canadian Forces Superannuation Act may be continued until the end of the month in which the event occurs, the Departments of the Solicitor General and National Defence decided to follow the administrative practice established by the Department of Supply and Services for purposes of the Public Service Superannuation Act.

In our opinion this practice contravenes the applicable provisions of the three Superannuation Acts and, if it is to be continued, amendments to each of the Superannuation Acts are required.

190. *Inadequate financial control procedures, airports.* In audits of the international airports at Montreal, Toronto and Vancouver, a number of irregularities were observed in the administration of leases and concessions. These irregularities indicate the need for a strengthening by the Department of Transport of the administration of its leases and concessions:

1. A comparison of the area occupied with that specified in the lease revealed that a number of lessees were occupying more space than was covered by their leases. The Department was aware of this situation because a departmental study at Montreal airport six years earlier had indicated a total undercharge of $46,000 per annum, much of which was not adjusted. Following our examination the Department made a number of adjustments during 1971 which resulted in additional revenue of $22,000 at this airport. However, undercharges in prior years are not being collected.

2. Failure to review annually the rental rates for land leased to others has resulted in contiguous land being rented at rates that vary by as much as 300%. The Department presently has leases that are on a pleasure basis, the rental rates for some of which have not been increased since 1960 and are now far below market value. The Department is reviewing the rental rates on these leases. Consideration should also be given to including in future leases for a term of more

than three years, a clause which would permit a review of rental rates at intervals of three to five years.

3. Leases with concessionaires in which the rental is based on gross revenue should include a clause requiring the lessee to submit monthly statements of gross revenue and audited annual financial statements. However, a number of leases noted in our examination did not contain such a clause. In instances where gross revenue statements were required, any differences between monthly statements of gross revenue and the yearly gross revenue figures were not investigated and reconciled. One lessee reported, and subsequently remitted to the Department, an underpayment of $39,000 which had not been detected by the Department although it could have been if the differences had been investigated. Many lessees who were required by the terms of the lease to submit audited annual financial statements had not done so. In several instances unaudited statements were submitted and in one such case the statement covered a period of more than five years. One of the major airport revenues is derived from oil companies who pay fees based on the number of gallons of aviation fuel and oil sold. In most of these cases no verification is made of reported sales and there is no provision in the lease requiring the oil company to submit audited sales figures.

4. During the year the Department improperly waived the collection of revenue due the Crown under certain lease agreements. Collection of a concession fee, based on gross revenue, was waived on one occasion because a sub-lessee reportedly suffered a loss on operations. In another instance the guaranteed minimum rental payment for the lease-year was $64,000 more than the percentage rental based on sales, but the Department agreed to allow the $64,000 to be applied as a reduction of the following year's rent.

5. Internal control at the Montreal airport is not satisfactory in that the same officer supervises the collections from coin machines, acts as cashier, does the banking and prepares the bank reconciliations, maintains the accounts receivable and has custody of pre-numbered forms.

191. *Inadequate billing, collection and follow-up of accounts receivable.* The accounts receivable of the Department of Transport at March 31, 1971 totalled $5,980,000, of which $3,528,000 pertained to Air Services. Of these, $2,204,000 (63%) had been outstanding for more than 30 days and were therefore past due. One account totalling $489,000 was past due to the extent of $396,000 (81%) including $176,000 which had been outstanding for more than 90 days. These past due accounts appear to be the result of failure to carry out the collection action set down in the revised procedures introduced by the Department in 1969 and 1970 (see paragraph 218 of our 1970 Report).

The outstanding Air Services accounts for international traffic amounted to $118,000. During our review we noted that December 1971 billings related to August to October 1970 traffic, a delay of 14 to 16 months. Because of such inordinate delays in billing for radiotelegrams and radiotelephone calls, many of the accounts are rejected or are uncollectable by the time the bill is issued. We also noted that the recording of payment is in many instances delayed and that no control account is maintained. There is evidence of poor follow-up on overdue accounts in that such action only takes place nine months after the billing date which in many cases may be nearly two years after the service was rendered.

192. *Loss of wharfage revenue.* Under the Government Wharves Regulations, Order in Council P.C. 1954-1683 of November 3, 1954, fishing vessels were exempt from payment of side wharfage at all wharves other than those designated by the

Minister of Transport. These Regulations were replaced by new Government Wharves Regulations, Order in Council P.C. 1964-104 of January 23, 1964, which require payment of side wharfage by fishing vessels as well as pleasure boats. The institution of these user charges was to provide revenues with which to defray the cost of local supervision of float facilities and other services.

Opposition to the wharfage charges developed and at some Marine Agencies the owners of fishing vessels and pleasure boats refused to pay the required fees. At one Agency, billed accounts receivable in excess of $20,000 remain unpaid and the boat owners who refused to pay have not been billed since January 31, 1967. Annual revenue which amounted to $26,000 in 1965 dropped to nil in 1970. The complete breakdown of collection procedures at this Agency has resulted in a loss of Crown revenue, estimated to be in excess of $200,000, and similar losses have occurred and continue to occur at other Agencies where the same problem exists.

In February 1967 the Minister of Transport arranged for an independent inquiry into the administration of certain small boat harbours and floats and sought recommendations for the future administration of these harbours. Although the report was submitted in September 1967, the recommendations have not been implemented. The findings of the inquiry included the following:

1. There are no *prima facie* economic reasons for subsidizing commercial fishermen through free or nominal side wharfage, except that they have had this privilege in the past.
2. With some exceptions, harbours are poorly organized with no signs indicating the operating authority or the wharfage dues. The few notices that exist are in poor repair. Department of Transport inspection is infrequent or non-existent and there is little evidence of interest by the Government other than to keep the structures in good repair.
3. Wharves Regulations are not enforced and are widely ignored by boat operators. Department of Transport personnel have a lack of confidence in these Regulations and the Department has not made a serious effort to enforce them or to improve them where necessary.

The Department is taking no steps to correct the situation but is seeking to transfer the responsibility for small craft harbours to the Department of the Environment.

193. *Improper accounting for revenue.* At major airports the Department of Transport operates public car parking lots which are managed by agents who are under contract. Revenue from these operations is deposited intact to the credit of the Receiver General while operating expenses and management fees are paid by cheque drawn on the Receiver General.

As indicated in our Reports for the past two years (paragraph 171 in 1970), the accounting procedures followed with respect to the revenue and expenditure arising from these operations include the temporary accumulation of the revenue in suspense accounts. During the year management fees of $266,000 paid to agents at seven airports were recorded as a charge to these accounts. The same procedure was followed with respect to an outlay of $14,000 at one airport for parking lot equipment. In the same manner, a fee of $12,500 with respect to the collection of landing

and parking fees for unscheduled and itinerant aircraft at one of the major airports was met from the fees collected.

The result of these costs of $292,500 being charged to the suspense accounts, to which associated revenue had been credited, instead of being included in the expenditure totals of the Department, was that the expenditure for the year was understated, and the year's revenue total was also understated because it reflected only the net revenue after the expenses had been deducted.

Departmental officials, when appearing before the Public Accounts Committee on May 25, 1971, informed the Committee that in future these revenues and expenditures are to be reported on a gross rather than on a net basis.

194. *Users fee for airport passenger loading bridges.* At most major airports, airlines install, maintain and operate their own passenger loading bridges and pay an annual space rental to the Department of Transport. At Toronto International Airport, however, the Department decided to provide an additional 12 passenger loading bridges.

In August 1970 the airlines were advised that the first four of these departmental loading bridges would be operational in September 1970 and in September the airlines were informed of the rate to be charged for use of the bridges. Because of objections by the carriers to the rate used in billings amounting to $17,000 for September, billings were discontinued and a new rate proposal, based on a reappraisal of the costs and utilization, was issued in December 1970. However, it was not until June 1971 that billings at the new rate were issued for use of the bridges from October 1970 onwards. A notice was included with the billings stating that "when the Bridge Fee has been officially set, and if it is different from the $15.00 interim fee, an adjusted billing will be raised accordingly". Billings for the period October 1, 1970 to March 31, 1971 amounted to $170,000.

By December 31, 1971, sixteen months after the loading bridges went into use, the Air Services Fees Regulations had not been amended to include loading bridge fees. We understand that an amendment establishing such a fee is under consideration.

195. *Method of financing construction and acquisition of ferry vessels for the Prince Edward Island Ferry Service.* In our 1970 Report (paragraph 172) we drew attention to the extension to the Department of Transport of the practice of recording as loans, amounts expended on capital assets. Under the long-standing policy with regard to the Statement of Assets and Liabilities which is quoted in paragraph 239 of this Report such outlays are to be charged to expenditure when they do not meet the requirement of being realizable or revenue-producing.

Transport Vote L107b, Appropriation Act No. 1, 1969, *1968-69, c.23,* authorized loans in 1968-69 and subsequent fiscal years in the amount of $16 million, on such terms and conditions as the Treasury Board may approve, for the construction and

acquisition of ferry vessels and related equipment. No indication was given as to whom the loans were to be made. In March 1969 the Department of Transport acquired a second-hand ferry vessel, renamed the M.V. *Lucy Maud Montgomery*, and later entered into a contract for the construction of two vehicle and passenger ferries.

The Department intends to amortize the cost of each vessel over a 20-year period, commencing when the vessel enters service, by means of an annual charge to the Prince Edward Island Ferry Service Deficit. An amount of $582,000 was charged to the 1969 Deficit, of which $416,000 in interest was credited to the Department's non-tax revenue account "Return on Investments" in 1969-70 and $166,000 was credited to the loan account, although the amount required for amortization of the principal was only $126,000. The excess of $40,000 represented the application of surplus funds which otherwise would have lapsed.

The practice continued in 1970-71. The loan account was charged with additional expenditure of $48,000 for the M.V. *Lucy Maud Montgomery* and $8,151,000 representing progress payments on the two ferries under construction. These expenditures brought the total charge to the Loan Vote to $14,087,000.

The Prince Edward Island Ferry Service Deficit for 1970, which was provided for by Transport Vote 20, was charged with $1,035,000 with respect to the M.V. *Lucy Maud Montgomery* of which $419,000, representing interest for one year on the advance from the loan account, was credited to the Department's non-tax revenue account "Return on Investments", and $616,000 was credited to the loan account. The latter amount is not the scheduled amount for amortization of principal in 1970-71, which was only $137,000, but represents four years amortization of principal. This procedure resulted in $479,000, which otherwise would have lapsed, being charged to Transport Vote 20, thus not only overstating the actual deficit of the Prince Edward Island Ferry Service but also weakening parliamentary control over expenditure.

When a departmental activity is a subsidized activity such as the Prince Edward Island Ferry Service, in which out-of-pocket operating costs are subsidized, the assets employed obviously cannot be regarded as revenue-producing. However, as in the case of certain loans to Crown corporations they can be given the appearance of being revenue-producing by asking Parliament to appropriate funds for payment of interest. The Public Accounts Committee has expressed the opinion that loans made to Crown corporations which do not have the means to pay interest or repay the loan without recourse to parliamentary appropriations should not be regarded as revenue-producing assets. (See Appendix 1, items 5 and 17.)

As is pointed out in paragraphs 57 and 239 of this Report, if certain capital assets are to be included in the Statement of Assets and Liabilities, then a formal change of policy is required and steps should be taken to bring all similar capital assets on to the Statement. Furthermore, the assets should be described as capital assets and should not be categorized as loans, which is incorrect.

196. *Action for damages.* In our 1970 Report (paragraph 234) reference was made to a collision between two vessels in the St. Lawrence River down stream from Sorel, Que., which resulted in the total loss of one of the vessels. By petition of right, action for damages in excess of $5 million was taken against the Crown by suppliants who included underwriters, insurers and consignees of the cargo of the sunken vessel. The suppliants alleged that the collision had been caused by the displacement of a range light, under the control of the Department of Transport, which guided one vessel so close to the south bank that it sheered, crossed the navigation channel and collided with the other vessel. The judgment of the Exchequer Court of Canada, pronounced in September 1968, maintained the petition of right with costs, it being provided in the judgment that the matter of assessing damages was to be determined "by reference" and that in the event of an appeal, such reference was to take place after the appeal.

An appeal from the Exchequer Court judgment lodged by the Crown in the Supreme Court of Canada was heard in May 1970. In a judgment rendered on April 27, 1971, the Supreme Court ruled that the liability to make good the damage occasioned by this collision should be borne 50% by the Crown and 30% and 20% by those responsible for the navigation of the two vessels. The Court also recommended that the case be referred back to the Exchequer Court for disposition of a counterclaim by the owner of one of the vessels involved.

197. *Department of National Defence costs charged to Transport appropriation.* The Meteorological Branch of the Department of Transport has for many years provided the Department of National Defence with meteorological services on a non-recovery basis under agreements approved by the Treasury Board. The charge to Transport appropriations for these services amounted to $2,191,000 in 1970-71 and $2,184,000 in 1969-70.

Both Departments have agreed that in accordance with current government policies and management concepts, the costs associated with meteorological services of a military nature should be assumed by the Department of National Defence.

A joint submission to the Treasury Board which sought approval for the transfer of financial responsibility in the amount of $2,521,000 for the 1971-72 year was rejected. Although recognizing that program budgeting principles required the cost of meteorological support services to be charged against defence programs, the Board withheld approval because of the budgetary ceiling of $1,815 million for National Defence expenditure.

198. *Capital expenditure project financed with revenue funds without the authority of Parliament.* In 1964 the Department of Transport was given the responsibility for managing Resolute Bay Airport, and in 1966 entered into a lease agreement with an oil company under which the company was granted the privilege of maintaining, operating and using the refuelling facilities, the pipelines and mobile equipment at that location. The lease agreement provided for the collection by the company of

certain tank and gallonage rental charges with the receipts to be held "in trust" and paid to the Department, with interest at 5%, within 15 days after March 31 each year. The lease further provided that the company could use the trust funds for the repair, maintenance and improvement of the existing facilities if authorized in writing to do so. This provision in the lease was irregular because prior to 1968-69 the Department lacked authority to spend revenue.

In 1969 and again in 1970, in response to increased demands for aviation and other fuels, the Department authorized the company to increase the capacity of the tank farm at a total cost of $1,319,000. These expenditures increased the tank farm to five times its original capacity.

In directing the undertaking of these expenditures the Department authorized the company to recover its cost from the gallonage rental charges and at the same time agreed to pay 8% per annum interest on the unrecovered capital expenditures. The diversion of revenue in this manner without the authority of Parliament is illegal.

Following criticism of these operations by the internal auditors of the Department, a submission was made to the Treasury Board in 1971 requesting retroactive approval for the construction of the additional petroleum and oil line facilities and authority to reimburse the company from the Department's capital expenditure vote for the capital cost of the project together with interest at 8%. The Treasury Board granted its approval and authorized an information item in the Supplementary Estimates (C). The information item which appears at the bottom of page 72 of Supplementary Estimates (C) 1970-71 is misleading because it does not indicate that the work had been completed over the preceding two years or that it had been financed by an oil company which in turn was holding departmental revenues in excess of the cost of the project.

On April 20, 1971 a cheque was drawn in favour of the company in the amount of $1,443,000 covering construction costs of $1,319,000 and 8% interest amounting to $124,000. The payment was made from Transport Vote 40—Air Services—Capital expenditure.

On May 27, 1971 a payment of $750,000, representing gallonage rental and interest at 5% which was due April 15, 1971, was received from the company. On June 3, 1971 a further payment of $984,000, representing transportation charges on fuel delivered to Resolute Bay by the Department and interest at 5% which was due March 31, 1971, was received from the company.

From the point of view of parliamentary control almost every facet of this construction project was irregular. It is difficult, therefore, to understand why the Treasury Board would grant its retroactive approval, apparently without directing any criticism at the Department. It appears that the irregularities resulted from a regional office of the Department acting independently of regulations and procedures and failing to adhere to the terms of the lease. Many departments are now in

the process of decentralization and if breakdowns in controls such as occurred in this case are to be avoided departmental headquarters must maintain firm overall control.

199. *Costs incurred to limit oil pollution from sunken oil barge.* On a number of occasions, we have commented on costs incurred by the Crown in removing threats to waterfowl, marine life and coastal property caused by the presence of sunken vessels. In our 1969 Report (page 125) we noted that proposed legislation which would place financial responsibility on the owners for the removal of a wreck or its cargo was deferred pending deliberations on the subject by an intergovernmental organization. We further reported that international agreement was not reached on this matter and that the Department of Transport would again be recommending legislation with respect to financial responsibility for the removal of a wreck or its cargo. This goal was achieved when an Act to amend the Canada Shipping Act, *1970-71-72, c.27,* received Royal Assent on March 30, 1971 and the applicable sections were proclaimed in force as of July 1, 1971.

Prior to enactment of this amending legislation, the oil barge *Irving Whale* sank on September 7, 1970 in 240 feet of water, approximately 35 miles northeast of Prince Edward Island. A quantity of oil escaped from the cargo of approximately one million gallons and raised fears of extensive damage to coastal property and bird and marine life. Emergency measures were implemented by personnel of the Departments of Transport and National Defence to curtail the oil leakage and to clean up the pollution resulting from the mishap. These measures cost $521,000, of which $322,000 was incurred by Transport and $199,000 by National Defence (see paragraph 110 of this Report).

The barge remains on the bottom with most of its cargo of oil. Expert opinion is that because of the temperature of the water the oil cargo has solidified to the extent that the danger of escaping oil is negligible. It appears that there is no legal basis on which to recover from the owner of the sunken barge the costs already incurred or to require him to remove the sunken barge and its remaining cargo.

200. *Costs of oil pollution clean-up, Chedabucto Bay, N.S.* After running aground on Cerberus Rock in Chedabucto Bay on February 4, 1970, the oil tanker *Arrow* broke up, sank, and discharged considerable quantities of her cargo of fuel oil into the waters of Chedabucto Bay. Large and numerous oil slicks resulted, which fouled fishing gear and the surrounding shoreline, and posed a serious threat to marine life and waterfowl.

Under the leadership of a Task Force appointed by the Minister of Transport, the Department of Transport along with several other government departments undertook the tasks of removing oil slicks from the surface of the water, cleaning up beaches and fishermen's gear, curtailing the further spread of oil, pumping oil out of the sunken section of the hull, and sealing off the wreck to prevent recurrent

leakage. Expenditures incurred by the several departments to October 31, 1971 in the carrying out of this clean-up operation amounted to $3.8 million.

An amount of US$945,000 has been accepted from TOVALOP (Tanker Owner Voluntary Agreement on Liability for Oil Pollution) in full settlement of the claim of the Government of Canada against the owners of the *Arrow*.

201. *Cost of terminating lease for telecommunication facilities.* In our 1968 Report (page 121) we referred to an agreement entered into in 1962 by the Department of Transport with a telecommunications company for the provision of leased equipment for seven semi-automatic relay centres across Canada and to the payment of $566,000 in termination charges when installation was not proceeded with at one centre. We stated that, in order that the company would be assured of recovering its invested capital, a 10-year lease covering each centre provided, in the event of early termination, for charges for each unexpired month of the term of the lease. We also pointed out that the six relay centres which were completed between 1962 and 1966 were to be converted and upgraded to a fully-automatic system and that this changeover would involve payment of substantial termination charges.

The work of converting and upgrading each centre to a fully-automatic system was completed in December 1970 and termination charges amounted to $1,324,000 which brought the total termination charges to $1,890,000.

202. *Additional cost due to changes in plans and specifications, Richelieu River, St. Ours, Que.* In June 1967 the Department of Transport entered into a contract for construction of the concrete portion of a regulating dam on the Richelieu River at St. Ours.

Prior to this, in September 1966, a contract had been awarded for the design, model testing, supply and erection of five gates, valves, operating controls, embedded parts and miscellaneous equipment. The requirement that the design be model tested was to ensure proper operation under the conditions existing at St. Ours. This contract was awarded seven months prior to calling tenders for the concrete portion of the work in order that all the required information might be incorporated into the plans for the concrete work.

However, at the time of the tender call and of the subsequent award of the concrete contract the design of the gates had not been finalized. As a consequence, the contractor was forced to make numerous changes. These changes resulted in delays which together with a delay of six weeks in the contract award forced the contractor to carry out work in the winter which had been scheduled for the summer and autumn.

In February 1969 the contractor submitted claims amounting to $1,066,000 for his additional costs attributed mainly to changes in the work, arising in part out of the delay in the design and supply of the gates.

In November 1970, after lengthy negotiations, the Department reached a settlement with the contractor amounting to $667,000 including interest of $75,000. It has not been possible to determine what portion of this amount may be considered non-productive.

203. *Payment in excess of normal subsidy.* Under the National Transportation Act, *R.S., c. N-17,* the Canadian Transport Commission is responsible for the administration of subsidies voted by Parliament for any mode of transport in Canada. Upon its formation, the Commission established the Air Transport Committee to assume the duties formerly vested in the Air Transport Board, including the administration of subsidies to regional air carriers.

The Commission's examiners audited the records of a company, which provided both subsidized and unsubsidized air services, and calculated the subsidy entitlement to be $952,000. However, after representations from the company, the subsidy was increased by $393,000 to $1,345,000.

Of the additional amount granted, $134,000 was due to an increase in the profit allowance from 9% to 12% of flying revenues on the subsidized routes. This increment in the profit allowance, which is within the prescribed limits, was considered justified in light of the high interest rates then prevailing. The balance of the increase, $259,000, resulted from charging to subsidized routes certain indirect expenses previously charged, in accordance with the prescribed accounting and route cost procedures of the Air Transport Committee, against non-subsidized routes.

Transport Vote 55 of 1969-70 provided that subsidies be approved by the Treasury Board but, in its submission for approval of this subsidy, the Commission did not advise the Board of the deviation from prescribed accounting and route cost procedures.

204. *Additional cost due to delay in awarding contract, Malton, Ont.* On August 19, 1970, the Department of Transport received the approval of the Treasury Board to enter into a contract with the lowest tenderer for the construction of the superstructure of phase II, stage I of Terminal No. 2 at Toronto International Airport, at a cost of $13,506,100. The tenderer, however, was not prepared to enter into a contract at his original prices, since the 60-day validity period of his tender had expired. An attempt was made to negotiate new prices, but no agreement was reached. The Department then requested the three lowest bidders to re-submit tenders with the result that the new low tender was submitted by the original low bidder, but at a price $324,000 higher than on the first call. The new low tender was accepted and in October 1970 the contract was awarded in the amount of $13,830,100.

The increase of $324,000 in cost is a direct result of the delay in awarding the contract arising from the Department's failure to process the original tenders within the validity period provided in the tender documents. The reason advanced for this delay was that the specifications were complex with bidders being given the oppor-

tunity to bid on approximately twenty alternatives, and there were three divisions of the Department involved in assessing the bids. As a matter of fact 51 of the 60 days had elapsed before the Department started moving the draft Treasury Board submission through the Administration to the Minister—a process which required a further 21 days. The validity period had therefore expired two weeks before the Minister received the draft submission. A further 12 days elapsed before the Treasury Board received the submission and a further 9 days elapsed before the Treasury Board gave its approval.

Administrative improvements proposed by the Department include pre-tender evaluation of alternatives; assignment at time of tender opening of responsibility for identification, and follow through to solution, of specific problems related to approval of the tender award; and procedural changes to keep delays in handling to a minimum.

205. *Additional cost due to delays in the implementation of computerized switching operation.* In May 1967 the Department of Transport contracted with a telecommunications company to convert the existing leased National Weather Teleprinter Networks from manual to computerized switching.

In July 1967 it was decided, in co-ordination with the United States Weather Bureau, to change the flow of United States-Canada weather information from individual network connections to a computer link to achieve a more direct and efficient exchange of data.

The contractor had the new system ready for operation in September 1969, but delays in completing changes in the United States system and operational difficulties forced deferment of the target date to March 1, 1970.

The contractor claimed for expenses incurred in maintaining two systems from October 1, 1969 to March 1, 1970 without benefit of any revenue from the new system. These additional expenses were paid in September 1970 in the amount of $225,700.

In addition to this cost, the delay in implementation of the new system for a period of five months resulted in the Department failing to realize in this period the savings expected to be generated by use of the new system.

206. *Cost of discarded design work, Prince George, B.C.* In February 1969 the Department of Transport obtained approval for the construction of a public air terminal building, an operations building and related facilities at Prince George at an estimated cost of $1,819,000. The Department's engineers and architects then proceeded with the final design work, and in June 1970 tenders were called for the construction of the buildings. The lowest tender received was $1,548,000. Other related and approved work estimated to cost an additional $992,000 was not included in the tender call.

The Department undertook a review of all requirements and standards associated with the project with the objective of reducing the scope and quality of the work to remain within the approved amount. While it was estimated that a saving of $210,500 could have been effected, the cost of the buildings would still have remained substantially above the authorized amount. The Department then decided to incorporate all space requirements in a single, multi-purpose building and to re-design the entire project. In March 1971 approval for the construction of the new concept at an estimated cost of $2,269,000 was received.

The design work for the original concept of the project which was discarded was done by departmental personnel. These non-productive, "in-house" costs were estimated to be $102,000.

207. *Cost of architectural services for abandoned project, Quebec, Que.* In May 1969 the Treasury Board approved in principle the construction of an addition to the air terminal building at the Quebec Airport at an estimated cost of $2,370,000, based on September 1968 estimates. In the following month the Board authorized the Department of Transport to enter into an agreement with an architectural firm for the design, working drawings, specifications and supervision of the proposed alterations and additions at an estimated cost of $125,000.

In July 1970 pre-tender estimates showed that costs had escalated almost 100% and a submission was made to the Treasury Board in September 1970 requesting authority to spend an additional $2,014,000 as a result of increased material and construction costs and a change in the scope of the project. In October, because of the substantially increased cost, the Treasury Board requested a detailed review of the proposal including a cost benefit analysis of the original proposal versus alternatives. The Department then advised the architects to cease work on the development of drawings and specifications.

As a result of the review and cost benefit analysis, the Department decided to construct a separate passenger terminal building and related facilities and to renovate the existing air terminal building as an operations building. In March 1971 this new concept was approved by the Treasury Board.

During the year the architectural firm was paid $86,500 in respect of the design, working drawings and specifications for the abandoned project. What portion of this amount may be non-productive cannot be determined until it is known what portion of the design preparation can be utilized on the new concept.

208. *Cost of repairs to leased aircraft.* In February 1967 the Department of Transport purchased two new aircraft for lease to a Caribbean air transport company. The lease, which included an option to purchase, was for a period of 12 1/2 years but could be terminated by either party on six months notice.

During the term of the lease the company experienced operational difficulties with the aircraft and, despite efforts by the engine and airframe manufacturers, was

unable to operate them successfully. As a result, in January 1970 the company exercised its right to terminate the lease in July 1970, after which the aircraft were returned to Canada and sent to the manufacturer for inspection and repair. Extensive corrosion was found in various sections of the airframes and in one of the engines and it was decided that this corrosion was abnormal and was due in part to the lack of proper maintenance by the company. The cost of repairs to the airframes was $111,500 and to the engine, $6,100.

Under the terms of the lease the company was to redeliver the aircraft

> fully equipped and in sound, airworthy condition and in good appearance, and with a valid certificate of airworthiness issued by the appropriate authority and if the said aircraft are not in such condition and appearance, the Company shall reimburse Her Majesty the expense of such restoration.

Notwithstanding this, only $39,300 of the total repair costs of $117,600 has been charged to the company and the balance has been assumed by the Department.

The manufacturer had admitted that these particular aircraft did not have sufficient priming, but he was not asked to bear the repair costs which resulted from this.

209. *Unused plans for construction of northern supply vessels.* In February 1965 the Department of Transport engaged a firm of naval architects at a fixed fee of $67,500 plus expenses for the preparation and supply of design plans and specifications for the construction of replacements for three older northern supply vessels. Following the delivery of the plans and specifications in December 1965, the Department decided not to spend any more money on design of this type of ship and tenders were not called for the construction of the replacement vessels.

The replacement of the three vessels was carried in the Department's Program Forecast until deleted in 1972-73. Thus, the expenditure of $67,500 on the plans and specifications that will not be used must be considered non-productive.

210. *Federal-provincial shared-cost programs.* In previous Reports (paragraph 179 in 1970) we have expressed the view that it would be informative to the House if a detailed summary were presented in the Public Accounts showing the numerous federal-provincial shared-cost programs and the federal share of the costs. The Public Accounts Committee considered this suggestion on February 2, 1971 and in its Fifth Report 1970-71, presented to the House on March 10, 1971, recommended that a detailed summary of these programs be provided as an appendix to the Public Accounts showing the federal share of the cost of each program on an annual and cumulative basis, and that the information on the federal share of each program be provided by province. (See Appendix 1, item 34.)

Information regarding Canada's contribution towards each of the larger federal-provincial shared-cost programs is available in the various tables contained in

Section 31 of Volume II of the Public Accounts. However, there is no consolidation showing the overall federal contribution to these programs.

Canada participated with one or more of the provinces in 82 shared-cost programs in 1970-71 as compared with 79 in 1969-70 as follows:

	1970–71	1969–70
Costs shared with:		
All provinces	13	12
More than one but not all provinces	48	46
Only one province	21	21
	82	79

This table has been prepared on the basis of actual financial participation with the provinces, whereas in prior years it was prepared on the basis of the eligibility of provinces to participate. For purposes of comparison there has been a reallocation between categories of certain programs in 1969-70. In addition 12 programs that were included last year have been deleted as not being true federal-provincial shared-cost programs and one program, previously omitted, has been added.

During the year 15 programs were completed while 18 new programs were started.

The federal expenditure under these programs totalled $2,333 million compared with $1,725 million in 1969-70. A summary of expenditure by departments and programs, showing the amounts applicable to each province, with comparable figures for the previous year, appears as Appendix 2 to this Report.

Expenditures on all programs are the subject of test audit by this Office, the extent of the test in each case being determined by the nature of the program and the scope of the audits carried out by the provincial auditors prior to the submission of claims, and by the Audit Services Bureau of the Department of Supply and Services in those cases where the Bureau is requested by departments to carry out examinations. Many of the programs are complex and their terms subject to varying interpretations and applications. Because of this, and the fact that the programs comprise a major portion of Canada's total contributions, provincial records are examined by regional representatives of this Office annually in connection with all programs coming under the jurisdiction of the Department of National Health and Welfare, excepting the medical care program, all programs coming under the Department of Manpower and Immigration and the agricultural and rural development program under the Department of Regional Economic Expansion. No examinations of provincial records are made in respect of expenditures on the remainder of the listed programs; claims and supporting documentation relating to these programs are examined by us at the departmental offices responsible for their administration, reliance being placed on the audit certificate given by the provincial

auditors as to the validity and correctness of the charges and on the direct examinations made of many of these programs by the Audit Services Bureau.

211. *Losses through the fraud, default or mistake of any person.* Section 61(1)(e) of the Financial Administration Act requires the Auditor General to report annually to the House of Commons every case in which he has observed that there has been a deficiency or loss through the fraud, default or mistake of any person.

During the year 67 losses totalling $77,047 were noted resulting from defalcations or other fraudulent acts of public officers, of which $36,723 was recovered, leaving net losses of $40,324. These are summarized as follows:

	Number	Initial loss	Recoveries	Net loss
Energy, Mines and Resources	1	$ 300	$ 83	$ 217
Indian Affairs and Northern Development	1	901		901
National Revenue—				
Customs and Excise Division	2	74		74
National Defence	2	4,201	2,639	1,562
Transport	1	1,164		1,164
	7	*6,640*	*2,722*	*3,918*
Post Office	60	70,407	34,001	36,406
	67	$ 77,047	$ 36,723	$ 40,324

One other loss resulting from a defalcation by an employee of the National Harbours Board was detected after the year-end and is the subject of paragraph 135 of this Report.

The Post Office losses are chargeable to the Post Office Guarantee Fund and the other losses to the Public Officers Guarantee Account. Of this latter group only the Energy, Mines and Resources net loss of $217 had been charged to the Account at the year-end. Furthermore this was the only loss, of the seven losses in departments other than the Post Office, that was reported in the Public Accounts for 1970-71, as required by section 98(3) of the Financial Administration Act.

One of the National Defence losses, amounting to only $76, was the loss from four fraudulent travel claims submitted by a recruiting officer who was found guilty on four counts and sentenced to a severe reprimand and fined $200. During 1969-70 this officer had submitted 608 claims totalling $14,664 on behalf of recruits passing through his recruiting centre. Of these the Department tested 18 totalling $546 and found that the recruits in question allegedly had received only $191. We understand that prosecution was limited to four of the 18 claims because of the difficulty of assembling the remaining recruits as witnesses.

A net amount of $10,079 remaining from 10 fraudulent losses in six departments reported by us in prior years had not been charged to the Public Officers Guarantee

Account at March 31, 1971, and, in fact, five of these in three departments totalling $7,746 have never been reported in the Public Accounts. The oldest, amounting to $1,524 occurred in 1954-55.

In addition to losses involving public officers, there are inevitably, in the administration of the numerous and complex programs of the Government, some deficiencies through the fraud, default or mistake of individuals outside the Public Service. These, when encountered in our test examinations, are brought to the attention of the administering department and, if significant, are commented on in our Report. (An example is paragraph 142 of this Report.)

212. *Non-productive payments.* The Public Accounts Committee in its Fifth Report 1961, in its Sixth Report 1964-65, and as recently as January 19, 1971 unanimously requested the Auditor General to include in his annual Report to the House of Commons any non-productive payments that come to his attention during the course of his annual audit.

Since 1961, in compliance with this request, there have been included in the Auditor General's annual Report details of non-productive payments that came to our attention during the course of the audit. Again this year we have sought to point out the underlying causes, particularly where the circumstances appear to have been beyond the control of the department or agency to whose appropriation the charge was made.

The total of the non-productive payments this year is estimated at $9,291,000. Many of these originated in prior years but in most cases a payment was made in 1970-71. Of these cases, 24 have been described in the foregoing paragraphs while the remaining 19 are as follows:

1. COST OF FRENCH LANGUAGE TRAINING FACILITIES WHICH WERE NOT USED. In the summer of 1970 two three-week courses were organized in Quebec, Que., to provide French language instruction for judges appointed by the Federal Government. Room and board were provided to the course participants under a standing contract which the Language Bureau of the Public Service Commission had entered into with the hotel at which the instruction was given. Sixty-two judges indicated that they would attend but, prior to the commencement of the courses, sixteen withdrew for various reasons. Additionally, three judges were considered to have a knowledge of the French language that would make the courses inappropriate and three judges failed to report. Three of the vacant places were taken by senior officials of the Department of Justice but, as the contract guaranteed at least twenty-five persons for each course, the Department was required to pay $3,654 for unused accommodation for seven persons.

   Earlier in the year the Department had been required to pay $522 for unused accommodation at the same hotel because a departmental official who had enrolled in a course had to withdraw at the last moment because of an urgent departmental assignment.

2. LEASE TERMINATION SETTLEMENT, FORT ERIE, ONT. In July 1962 the Department of National Defence entered into a lease for a ten-year period at a rental of $13,420 per year to provide accommodation for two militia units in Fort Erie.

Due to a reduction of the reserve forces the accommodation was not required after March 31, 1970 at which time the lease had two years and three months to run. In writing to the lessor on January 30, 1970, the Department stated that although it had the alternative of finding a suitable sub-lessee for the space, it would prefer to reach a mutually satisfactory arrangement to terminate the lease on April 1, 1970. The lessor's lawyers replied on March 18, 1970 and submitted a proposal for a termination settlement in the amount of $17,235 which was paid by the Department.

In its submission requesting approval of the termination payment the Department advised the Treasury Board that neither the Department of Public Works nor any other federal department or agency could make use of the space.

3. COSTS RELATED TO REDUCTION OF CONTRACT QUANTITIES. In January 1967 the Department of Supply and Services awarded a contract for the supply of five aircraft fueller tractors and eight fueller semi-trailers for the Department of National Defence at a firm price of $565,000.

In May 1968, prior to delivery of a pilot model, the Department of National Defence reviewed its overall requirements for aircraft fuellers and determined that there was no longer a requirement for three of the semi-trailers. The contractor was instructed to stop work on these units.

The remaining units were completed by March 1970 and, following an audit by the Department of Supply and Services, the contractor's claim for termination costs relating to the three semi-trailers was settled in February 1971 in the amount of $30,800. The Department of National Defence accepted parts valued at $15,500 into its spares inventory, reducing to $15,300 the non-productive portion of the termination costs.

4. COSTS ARISING FROM LATE DELIVERY OF CROWN-SUPPLIED MATERIAL. In May 1970 the Department of Supply and Services awarded a contract for the refit of H.M.C.S. *Margaree* at a firm price of $319,600 for known work with agreed firm rates for anticipated additional work estimated at $104,400. Work was completed in July 1970 at a final cost of $455,800.

Included in the $31,800 increase over the estimated amount were non-productive payments totalling $13,850 for overtime premium and rework occasioned by difficulties with materials supplied by the Crown. Materials received by the shipyard from National Defence supply depots were not received on time and in some instances did not meet specifications.

5. COSTS RELATED TO REDUCTION OF CONTRACT REQUIREMENTS. On January 21, 1970 the Department of Supply and Services awarded a contract for the supply of 20 wheel assemblies for Department of National Defence Yukon aircraft at a cost of $60,500.

On January 29, 1970 the Treasury Board approved the acquisition of more up-to-date aircraft which would permit retirement of the Yukon fleet by March 1971. On February 4 the contractor was asked to estimate his cost in the event of total or partial cancellation. Following receipt of his reply, the Department notified the Department of Supply and Services on February 19 that only four assemblies would be required to support the fleet until its retirement and on February 27 the contractor was instructed to stop work on the balance. The contractor completed the four assemblies for which he was paid $12,100.

In February 1971 the Department of Supply and Services agreed to the payment of $14,500 for costs incurred by the contractor on the remaining wheel assemblies. Materials valued at $3,700 were accepted into inventory by the Department of National Defence leaving non-productive expenditure of $10,800.

6. NON-PRODUCTIVE PAYMENTS RESULTING FROM APPRAISALS OF REAL ESTATE AT QUEBEC HARBOUR. In February 1970 the National Harbours Board engaged the services of two firms of appraisers to value the Board's property at Beauport Flats in the Quebec Harbour area prior

to its possible sale to the City of Quebec. According to the minutes of the Board, the appraisers were to "undertake separate appraisals and report their conclusions to the Port Manager separately."

Reports were received from the appraisers in December 1970 and February 1971 and their fees of $5,600 and $5,900 were paid. Notwithstanding the different dates on which the reports were received, a senior member of the Board's staff in March 1971 concluded, "it is obvious from a brief examination that the two reports with minor exceptions are, in fact, identical and the value of independent viewpoint lost". In April 1971 the Board formally concluded that, "It is evident that the two firms worked together on these appraisals" and on July 20 the Board agreed that a third appraisal be undertaken.

In due course, another appraiser was engaged to carry out a third appraisal of the properties on a per diem basis with a maximum cost of $2,000. It is difficult to understand why there should be such a difference between the fees of the original appraisers and the third appraiser.

7. ADDITIONAL PLANNING FEES DUE TO LIMITING OF CONSTRUCTION COST, CHANDLER, QUE. In 1964 the Department of Public Works, having obtained Treasury Board approval in principle to construct a deep water wharf at Chandler at an estimated cost of $3 million, engaged a firm of consulting engineers to undertake a preliminary investigation and to report thereon, to prepare a detailed design, and subsequently to supervise construction of the harbour improvements.

Early in 1969, following construction of a stone breakwater and an access road, the Department sought Treasury Board approval to increase the overall project cost to $4,843,000, but the Board directed that the cost of the project continue to be limited to $3,000,000. However, following receipt of additional information, the Board in August 1969 authorized increase of the project limit to $3,850,000 and entry into a contract for construction of the wharf at a firm price of $2,494,000, reflecting a reduction of the wharf's length from 1,000 feet to 600 feet. A local industry is contributing $525,000 towards this cost over a period of years.

At March 31, 1971 the project expenditure totalled $4,025,000, of which $321,000 was for consulting services. Included in the latter amount was a payment of $24,800 made in October 1970, covering the extra cost of redesigning the wharf for the purpose of reducing its length.

8. COST OF UNUSED SPACE AND ALTERATIONS DUE TO CHANGES IN REQUIREMENTS, OTTAWA. Having called tenders, with Treasury Board approval, for the provision of accommodation in Ottawa for Information Canada, the Department of Public Works in June 1970 obtained authority to lease space for ten years in the basement and on the ground, second, seventh, eighth and ninth floors of the successful bidder's building.

On July 23, 1970, while the premises were being readied for occupancy, Information Canada informed the Department that because of a recent policy decision it was felt that the tenth floor would suit the organization better than the second floor. The departmental reply pointed out that in the original planning it had been intended that all administrative space be grouped on upper floors, but that just prior to entry into the lease Information Canada had requested relocation of certain administrative functions to the second floor.

As a consequence of the decision not to use the second floor the building owners were paid $14,900 in March 1971, comprising $3,900 for revision of electrical, mechanical and partition requirements and $11,000 for rental lost over the period August 1 to December 1, 1970.

9. COST OF ABANDONED PLANS, HODGSON, MAN. In 1966 the Department of Public Works, on behalf of the Department of National Health and Welfare, appointed a firm of architects to design, prepare complete working drawings and specifications for, and subsequently supervise construction of a hospital, nurses' residence, family dwellings and a garage at Hodgson. The cost of construction was estimated to be $1.5 million.

Due to economic restraints the project was given a low priority in May 1967 and eventually was deferred, until reactivated in April 1970. The consultants submitted two accounts totalling $18,500 for work abandoned as a result of revised requirements and a settlement of $14,800 was negotiated. This expenditure was in addition to the preliminary design fee of $19,500 paid earlier.

Since reactivation of the project the cost has been estimated at $2,182,000 to which the Manitoba Hospital Services Commission has agreed to contribute $500,000.

10. COST OF ABANDONED PLANS, LAKEVIEW, ONT. The Department of Public Works entered into an agreement with an architect to provide consultant services in respect of alterations and improvements to office space in a warehouse building at Lakeview, to satisfy the needs of the Department of Supply and Services and Crown Assets Disposal Corporation. The estimated construction cost was $210,000.

A month later the Department of Supply and Services requested that action with regard to its accommodation be suspended pending a review of requirements. The resultant changes proved to be substantial and the call for tenders was cancelled. The consultant's agreement was terminated, a payment of $12,500 being made for the work abandoned.

New plans were prepared by the Department of Public Works, embracing a smaller area than originally contemplated, and the alterations were carried out during the year at a cost of $113,900.

11. COST OF ABANDONED PLANS, WETASKIWIN, ALTA. In 1967 the Department of Public Works retained a firm of consultants to design and supervise construction of a federal building at Wetaskiwin. The estimated cost of construction was $302,000.

The project was re-examined in 1968 following receipt of requests for increased space from some of the prospective occupants. The review produced a new estimated construction cost of $380,000, including provision for the additional requirements. As this was considered to be too expensive, the consultants were asked to prepare a completely new design within a revised budget of 85% of that amount, namely $323,000, and in September 1969 they were paid $12,200 for the work abandoned.

The building was completed in 1970-71 at a final construction cost of $380,200.

12. ADDITIONAL COST DUE TO CONSTRUCTION DELAY, PANGNIRTUNG, N.W.T. In 1968 the Department of Public Works, on behalf of the Department of Indian Affairs and Northern Development, awarded a contract at a fixed price of $774,000, subsequently increased to $827,500, for the construction of an addition to a school at Pangnirtung.

In June 1970 the contractor filed a petition of right claiming $12,900 with respect to additional expenses and damages and loss suffered as a result of delay. It was contended that although the contractor's work crew had been on the site and ready to commence operations on August 11, 1968, the date the vessel carrying project materials and equipment arrived off Pangnirtung, unloading of the ship was not effected until the period August 23 to 28, 1968.

The claim was settled during the year for $11,000 including legal fees which brought the contract cost to $838,500.

13. COST OF UNUSED SPACE, DETROIT, MICH. To accommodate the National Film Board, the Department of Public Works leased space in a building in Detroit for the period September 15, 1967 to June 30, 1972 at an annual rental of US$12,660.

On January 6, 1970 the Board informed the Department that the Detroit office was to be closed with effect from the 12th of that month. The space was listed with a rental agent but without success, the premises being difficult to let because of the comparatively short period remaining under the original lease, the small area involved, and the fairly extensive renova-

tions required for a new tenant. Following negotiations with the lessor, authority was obtained to pay US$5,800, the equivalent of five and one-half months rent, as consideration for cancellation of the lease. This payment, along with rental outlay of US$2,800 for the period January 12 to March 31, 1970, resulted in a non-productive cost of US$8,600.

14. ADDITIONAL COST DUE TO CONSTRUCTION DELAY, DEER LAKE, NFLD. In September 1969 the Department of Public Works awarded a contract at a fixed price of $19,100 for the construction of an addition and alterations to the Federal Building at Deer Lake, to meet requirements of the Post Office Department.

The contract called for completion of the work by January 12, 1970. However, early in November 1969 shift work was instituted for the postal employees in the building requiring the contractor to reduce the number of men on the job at any one time and to work short intervals and at irregular hours in order to minimize interference with postal operations.

During the year the contractor was paid $5,400 which he had claimed for additional labour and overhead costs incurred following introduction of the shift work. This amount, together with extras of $600, brought the final cost of the project to $25,100.

15. ADDITIONAL COST DUE TO CONSTRUCTION DELAY, ST. PHILÉMON, QUE. On March 17, 1967 the Department of Public Works expropriated a church property at St. Philémon as the site of a post office. The contract for construction of the building, in the amount of $16,800 and calling for completion within three months, was awarded a few days later. However, early in the following month the contractor reported that he had been refused access to the site by the former property owner. The situation was not remedied until the beginning of November 1967.

Compensation of $5,200 was claimed by the contractor in respect of additional costs which he contended had been incurred as a consequence of the delay in commencing work. A settlement of $3,500 was negotiated, with payment being made in January 1971. This outlay, along with an amount of $1,500 paid earlier for extra work, brought the final cost of the contract to $21,800.

16. UNUSED PLANS FOR MALTON POST OFFICE, MISSISSAUGA, ONT. Item 14 of paragraph 182 of our 1970 Report dealt with a non-productive payment of $9,500 made in 1967-68 to consultants engaged by the Department of Public Works to provide architectural services in respect of a proposed post office building at Malton. The initial concept had been abandoned.

During the year the consultants were paid a further $3,300, bringing the total non-productive cost to $12,800.

17. COST OF UNUSED ACCOMMODATION, MONCTON, N.B. In 1966 the Department of Public Works entered into a five-year lease terminating September 30, 1971, at a rental of $3,600 per annum, to provide space in Moncton for the Radio Regulations Field Office, then of the Department of Transport.

During October 1969 the Department of Communications, which had in the interval assumed responsibility for the activities involved, advised of increased requirements resulting from a planned consolidation of its regional and field offices at Moncton and from provision for future expansion. The request was met by use of alternative leased accommodation. The original premises remained vacant from February 16, 1970, until termination of the lease by mutual consent on February 28, 1971, except for occupancy by the Department of Manpower and Immigration from June 22 to August 31, 1970. The cost for the periods unused was $3,100.

18. COST OF ABANDONED EXPROPRIATION, WEST HEAD, N.S. In 1966 the Department of Public Works expropriated five properties to provide a site for a deep water wharf at West Head. Some three years later, on February 6, 1969, a notice of abandonment was filed on all properties, it having been concluded that improvement of existing facilities would be preferable to new construction.

Following abandonment of the expropriation one of the property owners, an oil company, requested compensation of $3,100, representing rental of its land for 31 months at $100 per month. The claim was reduced by negotiation to $1,900 which was paid in May 1970.

19. PAYMENT FOR UNUSED WATER AND SEWAGE FACILITIES, BATH, ONT. In our past two Reports (item 19 of paragraph 182 in 1970) we have drawn attention to non-productive payments of $9,600 and $5,900 by the Canadian Penitentiary Service for unused water and sewage facilities at the Millhaven Institution. The payments, which covered the period June 1968 to March 1970, prior to the opening of the Institution, were made under an agreement with the Village of Bath and with the Public Utilities Commission of the Village. Under the agreement the Canadian Penitentiary Service pays a fraction of the cost of operating, maintaining and repairing water and sewage treatment systems which were constructed for the Village but also service the nearby Institution.

During the year the Penitentiary Service paid $8,000 to the Village as its share of the cost of operations, of which $5,200 must be considered a further non-productive payment as it relates to the period prior to the takeover of the Institution by the Canadian Penitentiary Service on December 17, 1970.

On June 10, 1971 the Deputy Solicitor General explained to the Standing Committee on Public Accounts the reasons for the delay in opening the Millhaven Institution which resulted in the non-productive payments. The Committee made no reference to this in its Sixth Report to the House of Commons on June 30, 1971.

Summary of Assets and Liabilities

213. The Statement of Assets and Liabilities as at March 31, 1971, with comparative figures as at the end of the preceding year, prepared by the Receiver General for inclusion in the Public Accounts as required by section 55 of the Financial Administration Act and certified by the Auditor General, is reproduced as Exhibit 2 to this Report.

Assets

214. The following table shows the assets at March 31, 1971, by main headings in the Statement of Assets and Liabilities, and the corresponding balances at the close of the two previous years:

	March 31, 1971	March 31, 1970	March 31, 1969
Current assets	$ 1,687,678,000	$ 1,171,419,000	$ 983,288,000
Departmental working capital advances	215,551,000	200,962,000	188,871,000
Foreign exchange reserve accounts	5,727,305,000	4,020,400,000	3,649,655,000
Social security accounts	3,701,275,000	2,832,734,000	2,022,947,000
Investments held for retirement of unmatured debt	6,875,000	13,817,000	6,378,000
Advances, loans and investments—Domestic	12,191,363,000	10,921,076,000	9,883,011,000
Advances, loans and investments—External	1,706,887,000	1,633,008,000	1,576,011,000
Securities held in trust	124,491,000	114,363,000	111,466,000
Deferred charges	743,586,000	750,596,000	613,356,000
Inactive loans and investments	94,824,000	94,824,000	94,824,000
Total recorded assets	26,199,835,000	21,753,199,000	19,129,807,000
Less: Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net recorded assets	$ 25,653,451,000	$ 21,206,815,000	$ 18,583,423,000

215. *Current assets.* The balances included under this heading at March 31, 1971, with the comparable balances at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Cash	$ 1,578,048,000	$ 1,030,431,000	$ 884,933,000
Securities held for the Securities Investment Account	56,932,000	97,370,000	44,427,000
Other current assets	52,698,000	43,618,000	53,928,000
	$ 1,687,678,000	$ 1,171,419,000	$ 983,288,000

The $56,932,000 balance in the Securities Investment Account represents the amortized cost of securities of Canada held temporarily by the Minister of Finance under the authority of section 12 of the Financial Administration Act.

The total of $52,698,000 shown for "Other current assets" comprises Post Office cash on hand and in transit, $17,132,000, cash totalling $35,562,000 received by departments after March 31, 1971 which was applicable to, and was recorded in, the 1970-71 accounts and $4,000 cash in blocked currency.

216. *Departmental working capital advances.* The balances included under this heading at March 31, 1971, with the comparable balances at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Stockpiling of uranium concentrates	$ 101,183,000	$ 94,621,000	$ 87,236,000
Miscellaneous departmental accountable, imprest and standing advances	42,603,000	32,608,000	28,467,000
Defence Production Revolving Fund	36,260,000	27,600,000	34,549,000
Bullion and coinage	11,982,000	18,784,000	14,857,000
Transport stores	8,667,000	8,184,000	7,999,000
Canadian Government Supply Service	2,879,000	5,684,000	3,934,000
Other	11,977,000	13,481,000	11,829,000
	$ 215,551,000	$ 200,962,000	$ 188,871,000

The amount of $101,183,000 for stockpiling of uranium concentrates comprises the accumulated costs of acquiring, refining and storing these concentrates.

The item "Miscellaneous departmental accountable, imprest and standing advances" includes travel and other advances held by departments, government agencies and individuals over the year-end. The larger departmental totals of outstanding advances at March 31, 1971 were: Department of Labour, $21,095,000; Department of National Defence, $13,089,000; Department of External Affairs, $2,596,000; and Department of Manpower and Immigration, $1,281,000.

The Defence Production Revolving Fund, established under the authority of section 15 of the Defence Production Act, *R.S., c. D-2,* provides funds to finance the cost of stocks of defence supplies and essential materials and for working capital loans and advances to manufacturers of such supplies and materials.

217. *Foreign exchange reserve accounts.* The balances included under this heading at March 31, 1971, with the comparable balances at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Exchange Fund Account	$ 4,578,424,000	$ 3,220,400,000	$ 2,867,000,000
International Monetary Fund—subscription to capital	1,148,881,000	800,000,000	782,655,000
	$ 5,727,305,000	$ 4,020,400,000	$ 3,649,655,000

The Exchange Fund Account is operated by the Bank of Canada on behalf of the Minister of Finance. The balance of the Account at March 31, 1971, $4,578,424,000, comprised cash advances of $4,325,000,000 and Canada's allocation of special drawing rights issued by the International Monetary Fund, $253,424,000.

Cash advances are made by the Minister from time to time within the maximum ($4,500,000,000 at March 31, 1971) authorized by the Governor in Council under section 15 of the Currency and Exchange Act, *R.S., c. C-39.* The market value of the net assets acquired from the cash advances to the Exchange Fund Account was $4,077,772,000 indicating an unrecorded deficit of $247,228,000. Special drawing rights are a medium used by participating countries as foreign currency reserves designed to increase international liquidity.

The increase of $348,881,000 in Canada's subscription to the capital of the International Monetary Fund results from an increase in Canada's quota, which at the exchange rate prevailing at March 31, 1971 was $1,108,900,000 equivalent to US$1,100 million, offset in part by a reduction resulting from a drop in the value of the US dollar.

218. *Social security accounts.* The only social security account is the Canada Pension Plan Investment Fund. Funds of the Canada Pension Plan, in excess of an amount estimated as required to meet all payments in the following three months, are available for investment in 20-year non-negotiable provincial and federal securities at the average market yield of outstanding negotiable bonds of Canada which are 20 years or more from maturity. Investments in these securities at March 31, 1971, with the comparable balances at the close of the two previous years, were as follows:

	March 31, 1971	March 31, 1970	March 31, 1969
Ontario	$ 2,062,407,000	$ 1,586,369,000	$ 1,140,592,000
British Columbia	535,852,000	410,748,000	293,593,000
Alberta	341,141,000	258,819,000	181,758,000
Manitoba	217,816,000	166,345,000	118,662,000
Saskatchewan	174,690,000	131,822,000	91,465,000
Nova Scotia	142,736,000	108,695,000	77,091,000
New Brunswick	108,805,000	82,990,000	58,774,000
Newfoundland	70,316,000	53,487,000	37,930,000
Prince Edward Island	13,859,000	10,385,000	7,145,000
Quebec	12,832,000	7,700,000	4,622,000
Canada	20,821,000	15,374,000	11,315,000
	$ 3,701,275,000	$ 2,832,734,000	$ 2,022,947,000

219. *Investments held for retirement of unmatured debt.* These investments amounting to $6,875,000 consist of 5 1/2% Canada bonds maturing on August 1, 1980, with a face value of $7,759,000, purchased under terms of issue whereby the Government is to endeavour to purchase quarterly, in the open market and under certain

conditions, one-half of one per cent of the principal amount of the issues. During the year, bonds with a face value of $6,228,000 were purchased for $5,491,000, and bonds with a face value of $14,400,000 and a book value of $12,490,000 were cancelled.

220. *Advances, loans and investments—Domestic.* The balances included under this heading at March 31, 1971, with the comparable balances at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Loans to, and investments in, Crown corporations	$ 10,755,254,000	$ 9,634,530,000	$ 8,767,795,000
Veterans' Land Act Fund	520,723,000	498,728,000	446,111,000
Less: Reserve for conditional benefits	28,384,000	26,649,000	24,443,000
	492,339,000	*472,079,000*	*421,668,000*
Loans to provincial governments	359,949,000	319,649,000	270,328,000
Municipal Development and Loan Board	263,555,000	272,777,000	281,312,000
Miscellaneous	320,266,000	222,041,000	141,908,000
	$ 12,191,363,000	$ 10,921,076,000	$ 9,883,011,000

LOANS TO, AND INVESTMENTS IN, CROWN CORPORATIONS. The following table lists these loans and investments at March 31, 1971, with the comparable balances at the close of the two previous years:

	March 31, 1971	March 31, 1970	March 31, 1969
Central Mortgage and Housing Corporation	$ 5,038,083,000	$ 4,441,789,000	$ 3,960,603,000
Canadian National Railways	2,361,196,000	2,156,770,000	1,983,097,000
Farm Credit Corporation	1,176,750,000	1,127,727,000	1,049,922,000
The St. Lawrence Seaway Authority	618,643,000	562,714,000	521,160,000
Atomic Energy of Canada Limited	504,282,000	343,370,000	207,437,000
Export Development Corporation	354,398,000	273,513,000	231,575,000
National Harbours Board	270,239,000	265,696,000	261,163,000
Northern Canada Power Commission	49,410,000	44,673,000	42,056,000
Canadian Overseas Telecommunication Corporation	42,315,000	45,919,000	49,343,000
Eldorado Nuclear Limited	35,247,000	25,477,000	8,247,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000
Canadian Dairy Commission	23,430,000	45,167,000	41,955,000
National Capital Commission, other than Greenbelt—see also below	23,399,000	29,682,000	28,181,000
Northern Transportation Company Limited	16,100,000	10,000,000	2,000,000
Canadian Commercial Corporation	15,500,000	15,500,000	15,500,000
Canada Deposit Insurance Corporation	11,400,000	30,500,000	23,500,000
Canadian Broadcasting Corporation—working capital—see also below	9,630,000	9,000,000	9,000,000
Bank of Canada	5,920,000	5,920,000	5,920,000
Freshwater Fish Marketing Corporation	4,800,000	2,200,000	—
Canadian Arsenals Limited	4,500,000	4,500,000	5,000,000
Cape Breton Development Corporation	4,000,000	8,000,000	10,000,000

	March 31, 1971	March 31, 1970	March 31, 1969
Canadian Film Development Corporation....$	3,087,000	$ 1,748,000	$ 367,000
Canadian National Railways—*re* acquisition and repair of passenger equipment	1,650,000	2,000,000	2,416,000
Royal Canadian Mint....	1,000,000	2,000,000	—
Canadian National Railways—*re* Yarmouth-Bar Harbour ferry....	568,000	592,000	617,000
Canadian National (West Indies) Steamships, Limited....	325,000	325,000	325,000
Canadian Patents and Development Limited....	296,000	296,000	296,000
Canadian Corporation for the 1967 World Exhibition—see also below....	—	—	25,150,000
	10,606,168,000	*9,485,078,000*	*8,514,830,000*
Recovery likely to require parliamentary appropriations—			
Canadian Broadcasting Corporation..	111,005,000	112,005,000	92,370,000
National Capital Commission—Greenbelt....	38,081,000	37,447,000	37,695,000
Canadian Corporation for the 1967 World Exhibition....	—	—	122,900,000
	149,086,000	*149,452,000*	*252,965,000*
	$ 10,755,254,000	$ 9,634,530,000	$ 8,767,795,000

The total of $10,755,254,000, an increase of $1,120,724,000 over the previous year, does not represent the total equity of Canada in its Crown corporations at March 31, 1971. This equity in fact amounted to $12,442,727,000, as shown by their individual financial statements published in Volume III of the Public Accounts and as summarized on page 11.19 of Volume I of the Public Accounts. The principal reason for this is that the accounts of Canada are maintained on a modified cash basis which does not provide for recording as assets such items as surpluses of Crown corporations or the cost of certain capital assets which have been charged to expenditure. In no sense does the Statement of Assets and Liabilities of the Government of Canada purport to be a consolidation including the accounts of its wholly-owned corporations. The corporations maintain their individual accounts on the accrual accounting basis followed in commercial practice and a number have fiscal years conforming to the cycle of their individual operations rather than the April 1 to March 31 fiscal year.

Advances to Central Mortgage and Housing Corporation, made pursuant to the National Housing Act, *R.S., c. N-10,* increased by $596 million during the year due to further advances of: $609 million for loans in respect of public housing, less repayments of $129 million; $61 million for student housing, less repayments of $2 million; $60 million for municipal sewage treatment projects, less repayments of $11 million; and $9 million for urban renewal, less repayments of $500,000.

The total for the Canadian National Railways increased by $204 million due to:

(a) further investment in 4% preferred stock of the Company pursuant to section 6 of the Canadian National Railways Capital Revision Act, *R.S., 1952, c. 311*, continued by the Canadian National Railways Financing and Guarantee Act, 1969, *1969–70, c. 3*, and the Canadian National Railways Financing and Guarantee Act, 1970, *1970–71–72, c. 17*	$ 33,442,000
(b) further advances under the authority of—	
Canadian National Railways Financing and Guarantee Act, 1941, *1940–41, c. 12*; Canadian National Railways Financing and Guarantee Act, 1942, *1942–43, c. 22*	9,483,000
Canadian National Railways Refunding Act, 1955, *1955, c. 31*	40,000,000
Canadian National Railways Financing and Guarantee Act, 1969, *1969–70, c. 3*, Section 7—loans to Air Canada	47,000,000
Canadian National Railways Financing and Guarantee Act, 1970, *1970–71–72, c. 17:*	
Section 7—loans to Air Canada	70,000,000
Section 11—temporary financing of C.N.R.	20,000,000
Section 12—temporary financing of Air Canada	1,072,000
	220,997,000
Less: Repayment of advances made in the previous year for temporary financing	16,571,000
	$ 204,426,000

The advances to the Farm Credit Corporation increased by $49 million during the year due to further loans of $111 million, less repayments of $63.5 million, and $1.5 million paid to the Corporation under section 12 of the Farm Credit Act, *R.S., c. F-2,* as additional capital.

The amount shown for The St. Lawrence Seaway Authority increased by $56 million during the year due to additional loans of $44 million and a net increase of $12 million in deferred interest. Included in loans to the Authority are interest-free loans of $75 million for the Welland Canal.

Loans to Atomic Energy of Canada Limited increased by $161 million during the year due mainly to further advances made for the construction of: Nelson River transmission line, $51 million; Bruce heavy water plant, $50 million; Pickering nuclear power station, $28 million; Gentilly nuclear power station, $19 million; and Bruce auxiliary steam plant, $12 million.

The investment in, and loans to, the Export Development Corporation increased by $81 million during the year. This change reflects net advances to enable the Corporation to provide long-term financing of export sales, $71 million, the purchase of additional stock in the Corporation, $5 million, and payment of capital surplus of $5 million to the Corporation as required by section 11(3) of the Export Development Act, *R.S., c. E-18.*

Loans to the National Harbours Board increased by $4.5 million during the year due to advances of $2.5 million for Halifax Harbour and a further advance of $2 million for Vancouver Harbour authorized by Transport Vote L80, Appropriation Act No. 3, 1970, *1969-70, c.46.*

The amount shown for Eldorado Nuclear Limited increased by $9.8 million during the year due to further advances of $13 million authorized by Energy, Mines and Resources Vote L75, Appropriation Act No. 3, 1970, and repayments of $3.2 million.

During the year Northern Transportation Company Limited obtained further advances of $8.1 million authorized by Indian Affairs and Northern Development Vote L85, Appropriation Act No. 3, 1970 and repaid $2 million. The loans were made to finance the acquisition of transportation facilities for use on the Mackenzie River and Central Arctic coast.

Loans of $5.9 million were made to the Freshwater Fish Marketing Corporation during the year under authority of section 17 of the Freshwater Fish Marketing Act, *R.S., c. F-13,* as amended by Fisheries and Forestry Vote L20a, Appropriation Act No. 4, 1970, *1970-71-72, c.4.* Repayments totalled $3.3 million.

The financing of the capital requirements of the Canadian Broadcasting Corporation was partially by means of loans. Additional loans provided by Vote L145, Appropriation Act No. 3, 1969, *1968-69, c.36,* totalled $5.3 million. Repayments during the year amounted to $6.3 million. Repayment of the loans of $111 million outstanding at March 31, 1971 will involve parliamentary appropriations over a period of years.

VETERANS' LAND ACT FUND. The increase of $22 million in the Fund during the year was mainly due to additional advances of $50 million for the purchase of property, less repayments of $27 million.

LOANS TO PROVINCIAL GOVERNMENTS. These loans at March 31, 1971, with the comparable balances at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Newfoundland	$ 99,332,000	$ 74,093,000	$ 46,600,000
Nova Scotia	75,799,000	62,817,000	47,462,000
Quebec	72,252,000	71,549,000	73,460,000
New Brunswick	70,444,000	62,825,000	56,527,000
Saskatchewan	21,806,000	22,365,000	23,592,000
Manitoba	7,420,000	13,823,000	9,675,000
British Columbia	6,595,000	7,557,000	8,503,000
Alberta	4,225,000	4,041,000	4,509,000
Prince Edward Island	2,076,000	579,000	—
	$ 359,949,000	$ 319,649,000	$ 270,328,000

The following schedule shows the nature of the loans to the provincial governments:

	March 31, 1971	March 31, 1970	March 31, 1969
Advances and loans pursuant to the Atlantic Provinces Power Development Act, *R.S., c. A-17*	$ 216,554,000	$ 184,939,000	$ 144,758,000
Loans for the development of industrial infrastructures	48,873,000	4,615,000	—
Quebec share *re* guarantee 1967 World Exhibition loans	38,903,000	57,945,000	60,491,000
Treasury bill indebtedness of the Governments of the Western Provinces pursuant to the provisions of the Western Provinces Treasury Bills and Natural Resources Settlement Act, *1947, c. 77*	24,477,000	27,877,000	31,233,000
Saskatchewan—*re* South Saskatchewan River Project	12,337,000	12,337,000	12,337,000
Special program—loans to assist in the creation of employment	12,000,000	—	—
Overpayments to provinces arising from the Federal-Provincial Fiscal Arrangements Act, *R.S., c. F-6*	2,949,000	13,197,000	—
Overpayments to provinces arising from the Federal-Provincial Fiscal Arrangements Act, *1960–61, c. 58*	—	14,402,000	19,606,000
Other	3,856,000	4,337,000	1,903,000
	$ 359,949,000	$ 319,649,000	$ 270,328,000

Advances and loans to the provinces pursuant to the Atlantic Provinces Power Development Act increased by $31 million over the preceding year due to further advances of $26 million under the authority of Regional Economic Expansion Vote L15, Appropriation Act No. 3, 1970, *1969-70, c.46,* and accrued interest of $7 million on completed projects, less repayments of $2 million.

Loans for the development of industrial infrastructures increased by $44 million during the year which included advances of $42 million provided by Regional Economic Expansion Vote L25, Appropriation Act No. 3, 1970, and Vote L25a, Appropriation Act No. 4, 1970, *1970-71-72, c.4.* The term infrastructure in this context means a sound foundation for long-term economic growth.

Loans of $12 million were made during the year under the authority of Finance Vote L13c, Appropriation Act No. 1, 1971, *1970-71-72, c.25,* for the purpose of assisting in the creation of employment.

MUNICIPAL DEVELOPMENT AND LOAN BOARD. Advances were made pursuant to the Municipal Development and Loan Act, *1963, c.13,* to provide financial assistance to augment or accelerate municipal capital works programs. The programs have all been completed. The loans are secured by municipal and provincial debentures payable over the useful life of the project, up to a maximum of 50 years. The majority of the loans are for terms of from 20 to 30 years.

MISCELLANEOUS. The balances included under this heading at March 31, 1971, with the comparable balances at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Airport capital loans	$ 46,331,000	$ 5,126,000	$ —
Manufacturers of automotive products in Canada	40,262,000	33,752,000	21,644,000
Government of the Northwest Territories	30,027,000	20,917,000	16,810,000
Government of the Yukon Territory	25,391,000	20,496,000	15,308,000
Housing projects for the Canadian Forces	21,129,000	21,393,000	21,660,000
Manufacturers—defence plant modernization	20,768,000	18,341,000	14,643,000
Investment in shares of Panarctic Oils Ltd	20,284,000	13,534,000	—
City of Montreal	13,512,000	14,082,000	—
Loans for the construction and acquisition of ferry vessels and related equipment	13,306,000	5,722,000	4,036,000
Government equity in agency account of Crown Assets Disposal Corporation	12,581,000	9,181,000	7,761,000
Hydro Quebec Research Institute	10,900,000	—	—
Investment in shares of Telesat Canada	10,000,000	—	—
Assisted passage scheme	6,922,000	9,227,000	11,974,000
Loans for Indian economic development	6,167,000	4,154,000	—
Other	42,686,000	46,116,000	28,072,000
	$ 320,266,000	$ 222,041,000	$ 141,908,000

The amount shown for airport capital loans represents capital expenditure at Montreal and Toronto International Airports originally authorized by Transport Vote L165, Appropriation Act No. 3, 1969, *1968-69, c.36.* Additional loans of $41 million were made during the year.

The amount shown for loans for the construction and acquisition of ferry vessels and related equipment represents capital expenditure on ferry vessels originally authorized by Transport Vote L107b, Appropriation Act No. 1, 1969, *1968-69, c.23,* less amounts amortized as ferry operating costs.

Loans totalling $10.9 million provided by Energy, Mines and Resources Vote L10, Appropriation Act No. 3, 1970, *1969-70, c.46,* and Vote L10a, Appropriation Act No. 4, 1970, *1970-71-72, c.4,* were made to the Hydro Quebec Research Institute to assist in the financing of the construction of laboratories. These loans are guaranteed by the Province of Quebec.

The amount of $10 million for Telesat Canada is the cost of Canada's investment in the capital stock of that Company. Section 38 of the Telesat Canada Act, *R.S., c. T-4,* provides that the Minister of Finance, with the approval of the Governor in Council, may subscribe for, acquire and hold common shares of the Company for Canada up to a maximum investment of $30,000,000. The objects of the Company are to establish satellite telecommunication systems providing, on a commercial basis, telecommunication services between locations in Canada.

221. *Advances, loans and investments—External.* The balances included under this heading at March 31, 1971, with the comparable balances at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Loans to national governments	$ 1,406,097,000	$ 1,327,928,000	$ 1,269,213,000
Subscriptions to capital of, and working capital advances and loans to, international organizations	275,036,000	247,038,000	216,469,000
Investments in United States dollar securities issued by other than the Government of Canada	25,754,000	58,042,000	90,329,000
	$ 1,706,887,000	$ 1,633,008,000	$ 1,576,011,000

LOANS TO NATIONAL GOVERNMENTS. The following is a listing of the balances of these loans at March 31, 1971 in comparison with the balances at the close of the two previous years:

	March 31, 1971	March 31, 1970	March 31, 1969
United Kingdom	$ 1,017,670,000	$ 1,038,081,000	$ 1,058,091,000
France	59,150,000	67,600,000	67,600,000
Netherlands	27,540,000	32,130,000	32,130,000
Belgium	13,842,000	16,149,000	18,456,000
Others	195,000	212,000	305,000
	1,118,397,000	*1,154,172,000*	*1,176,582,000*
Special assistance loans to developing countries:			
India	138,978,000	87,657,000	42,935,000
Pakistan	78,868,000	43,661,000	22,672,000
Nigeria	9,941,000	7,653,000	5,705,000
Ceylon	9,473,000	7,502,000	4,243,000
Jamaica	6,408,000	5,096,000	3,247,000
Trinidad and Tobago	6,363,000	5,101,000	3,777,000
Guyana	5,369,000	2,782,000	2,361,000
Colombia	4,616,000	564,000	—
El Salvador	3,240,000	3,240,000	2,068,000
Chile	3,084,000	728,000	190,000
Tanzania	2,888,000	2,550,000	2,043,000
Tunisia	2,612,000	1,947,000	892,000
East African Community	2,558,000	—	—
Brazil	2,347,000	1,101,000	—
Ghana	1,557,000	—	—
Ecuador	1,214,000	1,108,000	714,000
Malaysia	1,009,000	—	—
Others	7,175,000	3,066,000	1,784,000
	287,700,000	*173,756,000*	*92,631,000*
	$ 1,406,097,000	$ 1,327,928,000	$ 1,269,213,000

The special assistance loans to developing countries increased by $114 million. These include loans of $40 million repayable over 40 years, following a grace period of 10 years from the date of execution of each agreement, which bear interest at 3/4 of 1% per annum on the amount of the loan committed less any repayments, and $228 million of interest-free loans, also repayable over 40 years with a grace period of 10 years.

SUBSCRIPTIONS TO CAPITAL OF, AND WORKING CAPITAL ADVANCES AND LOANS TO, INTERNATIONAL ORGANIZATIONS (exclusive of the International Monetary Fund). The following is a listing of the balances included under this heading at March 31, 1971 in comparison with the balances at the close of the two previous years:

	March 31, 1971	March 31, 1970	March 31, 1969
Subscriptions to capital—			
International Development Association	$ 164,717,000	$ 139,803,000	$ 112,776,000
International Bank for Reconstruction and Development	85,024,000	85,024,000	85,024,000
Asian Development Bank	13,358,000	10,811,000	8,108,000
International Finance Corporation	3,522,000	3,522,000	3,522,000
Caribbean Development Bank	1,820,000	1,081,000	—
	268,441,000	*240,241,000*	*209,430,000*
Working capital advances and loans	6,595,000	6,797,000	7,039,000
	$ 275,036,000	$ 247,038,000	$ 216,469,000

Canada's subscription to the capital of the International Development Association increased by $25 million during the year. This increase comprises a further contribution of $27 million to the capital of the Association as authorized by Vote L28, Appropriation Act No. 4, 1968, *1968-69, c.11,* less a payment of $2 million received from the Association to adjust for the increase in the value of the Canadian dollar.

Canada also paid further instalments of $2.5 million on its subscription to shares in the Asian Development Bank as authorized by Vote L23b, Appropriation Act No. 9, 1966, *1966-67, c.55,* and $739,000 on its subscription to shares in the Caribbean Development Bank as authorized by Vote L36a, Appropriation Act No. 4, 1969, *1969-70, c.2.*

INVESTMENTS IN UNITED STATES DOLLAR SECURITIES ISSUED BY OTHER THAN THE GOVERNMENT OF CANADA. These holdings consist of $26 million of special United States of America securities maturing on November 1, 1971 which were acquired under the authority of Order in Council P.C. 1964-1427 of September 10, 1964, pursuant to Vote L17a, Appropriation Act No. 7, 1964, *1964-65, c.20,* which provided for their purchase out of United States dollars paid to Canada pursuant to the Treaty between Canada and the United States of America relating to co-operative development of the water resources of the Columbia River Basin.

222. *Securities held in trust.* The amount of $124,491,000 at March 31, 1971 represents securities held for the following accounts: guarantee deposits in respect of oil and gas permits, and mineral and timber rights, $111,305,000; guarantee deposits in respect of customs duties and excise taxes, $4,527,000; deposits in respect of tax on recaptured capital cost allowances on commercial and fishing vessels, $3,124,000; contractors' securities, $1,914,000; and other, $3,621,000.

223. *Deferred charges.* The balances included under this heading at March 31, 1971, with the comparable balances at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Unamortized portions of actuarial deficiencies—			
Public Service Superannuation Account	$ 311,197,000	$ 283,708,000	$ 186,487,000
Canadian Forces Superannuation Account	227,240,000	254,806,000	242,691,000
Royal Canadian Mounted Police Superannuation Account	30,005,000	29,283,000	20,720,000
	568,442,000	*567,797,000*	*449,898,000*
Unamortized loan flotation costs	175,144,000	182,799,000	163,458,000
	$ 743,586,000	$ 750,596,000	$ 613,356,000

The relative superannuation statutes provide that actuarial deficiencies resulting from salary revisions and periodical valuations of the Superannuation Accounts be charged to expenditure in five equal annual instalments. The item "Unamortized portions of actuarial deficiencies" represents the portions of the actuarial deficiencies to be charged to expenditure in subsequent fiscal years. During the year $284 million was charged to these accounts as a result of salary revisions. Credits representing those portions of the actuarial deficiencies charged to expenditure in the year amounted to $283 million.

The item "Unamortized loan flotation costs" represents the unamortized portion of discounts and commissions paid on the flotation of loans. These costs are amortized, in the case of general loans, over the period from the date of issue to the earliest call date, if one is specified, otherwise to the maturity date of the loan, and in the case of Canada Savings Bonds over a period of five years from the date of issue.

224. *Inactive loans and investments.* The $94,824,000 shown for this item, which has remained unchanged for many years, comprises the following balances:

Loan to China in 1946 under the Export Credits Insurance Act, *R.S., 1952, c. 105*	$ 49,426,000
Loans to Roumania in 1919 for the purchase of goods produced in Canada	24,329,000
Payments to chartered banks in the years 1951–52 to 1960–61 in implementation of guarantee, given under the Export Credits Insurance Act, of loans by the banks to Ming Sung Industrial Company Limited (carrying prior guarantee by the Government of China)	14,470,000
Loans to Greece in 1919 for the purchase of goods produced in Canada	6,525,000
Loan to Province of Saskatchewan in 1908 for the purchase of seed grain (most recent payment received in 1959–60)	74,000
	$ 94,824,000

Liabilities

225. The following table shows the liabilities at March 31, 1971, by main headings in the Statement of Assets and Liabilities, and the corresponding balances at the close of the two previous years:

	March 31, 1971	March 31, 1970	March 31, 1969
Current and demand liabilities	$ 2,135,192,000	$ 1,808,811,000	$ 1,667,087,000
Foreign exchange reserve accounts	888,424,000	498,400,000	552,000,000
Deposit and trust accounts	439,184,000	491,882,000	511,843,000
Annuity, insurance and pension accounts	13,802,680,000	12,184,505,000	10,520,063,000
Undisbursed balances of appropriations to special accounts	266,598,000	273,398,000	235,508,000
Refundable corporation tax	3,065,000	38,148,000	140,806,000
Provision for compound interest on Canada Savings Bonds	18,582,000	20,301,000	12,421,000
Deferred credits	216,814,000	192,928,000	174,326,000
Suspense accounts	4,130,000	4,584,000	4,249,000
Unmatured debt	25,201,156,000	22,637,140,000	22,100,958,000
	$ 42,975,825,000	$ 38,150,097,000	$ 35,919,261,000

226. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1971, in comparison with the balances at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Outstanding cheques	$ 630,333,000	$ 515,880,000	$ 502,541,000
Accounts payable	582,301,000	602,615,000	470,162,000
Interest accrued	495,601,000	434,023,000	399,433,000
Interest due	325,577,000	161,642,000	162,915,000
Outstanding post office money orders	34,230,000	34,539,000	34,939,000
Matured debt	32,729,000	21,224,000	39,708,000
Salaries and wages accrued	14,287,000	8,970,000	—
Non-interest-bearing notes payable to international organizations	7,049,000	15,065,000	49,008,000
Other	13,085,000	14,853,000	8,381,000
	$ 2,135,192,000	$ 1,808,811,000	$ 1,667,087,000

The amount shown for "Accounts payable" is the total of charges pertaining to the year for which cheques were issued in April of the following fiscal year.

The non-interest-bearing notes represent those portions of Canada's subscriptions to the capital of certain international agencies which are not covered by cash or gold. At March 31, 1971, $6.6 million was payable to the Asian Development Bank and $400,000 to the Caribbean Development Bank.

227. *Foreign exchange reserve accounts.* The balances included under this heading at March 31, 1971, with the comparable balances at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Non-interest-bearing notes payable to the International Monetary Fund	$ 635,000,000	$ 364,000,000	$ 552,000,000
Allocation of special drawing rights in the International Monetary Fund	253,424,000	134,400,000	—
	$ 888,424,000	$ 498,400,000	$ 552,000,000

The non-interest-bearing notes represent that portion of Canada's subscription to the capital of the International Monetary Fund which is not covered by cash or gold.

The liability in respect of the allocation of special drawing rights in the International Monetary Fund represents the obligation arising from Canada's participation in the Special Drawing Account. Special drawing rights are held by the Exchange Fund Account and form part of Canada's exchange reserves.

228. *Deposit and trust accounts.* The following is a summary of the balances included in this item at March 31, 1971, in comparison with the balances at the close of the two previous years:

	March 31, 1971	March 31, 1970	March 31, 1969
Guarantee deposits	$ 120,860,000	$ 109,090,000	$ 105,252,000
Provincial tax collection agreements	86,618,000	174,281,000	171,419,000
Deposits by Crown corporations	81,755,000	58,817,000	63,547,000
Indian trust funds	33,569,000	34,001,000	34,274,000
Instalment purchase of bonds by public service employees	17,692,000	17,403,000	15,599,000
Contractors' holdbacks	15,933,000	16,127,000	13,373,000
Prairie Farm Emergency Fund	15,183,000	16,088,000	14,543,000
Canadian Pension Commission (Administration trust fund)	13,257,000	13,472,000	17,204,000
Veterans care trust fund	9,832,000	9,154,000	4,602,000
Veterans' Land Act trust account	4,625,000	5,063,000	7,864,000
Army Benevolent Fund	4,191,000	4,476,000	4,746,000
Post Office Savings Bank	3,675,000	3,944,000	7,805,000
Deposits respecting capital cost allowances on commercial and fishing vessels	3,415,000	3,151,000	8,221,000
Permanent services deferred pay	3,134,000	2,966,000	2,950,000
Contractors' security deposits	3,015,000	2,343,000	3,313,000
Other	22,430,000	21,506,000	37,131,000
	$ 439,184,000	$ 491,882,000	$ 511,843,000

The $120,860,000 shown for guarantee deposits is largely cash and securities deposited with the departments as guarantees in respect of oil and gas permits, mineral and timber rights, and for payment of customs duties and excise taxes. The securities held are recorded as assets in the contra account "Securities held in trust".

The Federal Government collects provincial income taxes from persons on behalf of all provinces except Quebec and from corporations on behalf of all provinces except Ontario and Quebec. At March 31, 1971 collections had exceeded remittances by $86,618,000.

Deposits by Crown corporations at March 31, 1971 comprised: Export Development Corporation, $33,975,000; National Harbours Board, $23,956,000; Canadian Dairy Commission, $19,734,000; Royal Canadian Mint, $1,995,000; Atomic Energy of Canada Limited, $1,500,000; Crown Assets Disposal Corporation, $500,000; and Canadian National (West Indies) Steamships, Limited, $95,000.

The Prairie Farm Assistance Act, *R.S., c. P-16,* imposes a levy of 1% on the price of grain purchased by licensees under the Canada Grain Act, *R.S., c. G-16,* and the moneys collected are credited to the Prairie Farm Emergency Fund. Awards are made to eligible farmers in areas affected by crop failures in the Provinces of Manitoba, Saskatchewan and Alberta and in the Peace River District of British Columbia. During 1970-71 credits to the Fund totalled $6.5 million while awards totalled $7.4 million, resulting in a deficit for the year of $900,000.

The Canadian Pension Commission (Administration trust fund) account comprises pension payments administered by the Canadian Pension Commission, contributions received by the Commission to assist pensioners or their dependants, and detention allowances for Canadian seamen.

The Veterans care trust fund contains assigned pension moneys and other income of veterans who are receiving domiciliary care and treatment. Disbursements are made on behalf of the individual veterans in accordance with regulations approved by the Governor in Council.

The Veterans' Land Act trust account is the repository of advance payments by veterans in connection with the purchase of land, payment of taxes, insurance, etc., and of proceeds of insurance claims to be used for the repair of fire damage.

Under the provisions of the Income Tax Act, *R.S. 1952, c. 148,* an owner of a vessel, at the time of its disposal, may deposit with the Department of Industry, Trade and Commerce an amount at least equal to the tax that would otherwise be payable in respect of the proceeds of disposition. Such a deposit may be paid out to any person who, before 1974, acquires a vessel constructed in Canada or incurs conversion costs in Canada with respect to a vessel, under conditions satisfactory to the Minister of Industry, Trade and Commerce. During the year new deposits of $4.7 million were credited to the account.

The $22,430,000 shown for "Other" balances at March 31, 1971 is the total of 77 balances including: Common school funds, $2,678,000; Immigration guarantee fund,

$2,228,000; National Research Council of Canada special fund, $2,076,000; Emergency gold mining assistance holdbacks, $1,520,000; and World War II claims fund, $1,280,000.

229. *Annuity, insurance and pension accounts.* The balances included under this heading at March 31, 1971, with comparable figures at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Superannuation accounts—			
Public Service	$ 3,990,007,000	$ 3,599,428,000	$ 3,178,377,000
Canadian Forces	3,570,639,000	3,306,389,000	3,023,617,000
Royal Canadian Mounted Police	199,717,000	165,765,000	130,811,000
	7,760,363,000	*7,071,582,000*	*6,332,805,000*
Social security accounts—			
Canada Pension Plan Account	3,843,577,000	2,932,258,000	2,107,758,000
Old Age Security Fund	728,422,000	721,398,000	620,892,000
Unemployment Insurance Fund	25,056,000	11,775,000	12,077,000
	4,597,055,000	*3,665,431,000*	*2,740,727,000*
Government Annuities Account	1,313,779,000	1,321,080,000	1,324,635,000
Other	131,483,000	126,412,000	121,896,000
	$ 13,802,680,000	$ 12,184,505,000	$ 10,520,063,000

The amount of $25,056,000 shown for the Unemployment Insurance Fund represents only the cash portion of that Fund which amounted to $323,637,000 at March 31, 1971. The remainder of the Fund which is not included in the Statement of Assets and Liabilities of Canada is invested in non-negotiable Canada bonds.

Summaries of the transactions during the past three years in the other accounts follow:

PUBLIC SERVICE SUPERANNUATION ACCOUNT

	Year ended March 31		
	1971	1970	1969
Balance at beginning of year	$ 3,599,428,000	$ 3,178,377,000	$ 2,875,823,000
Add:			
Actuarial adjustments—contra—"deferred charges" account, *re:*			
pay increases	161,800,000	163,900,000	121,000,000
deficit at December 31, 1967	—	51,194,000	—
Interest	147,694,000	130,993,000	117,950,000
Contributions by participants	95,488,000	90,987,000	77,473,000
Contributions by the Government	92,133,000	78,835,000	70,853,000
Other credits	1,129,000	1,023,000	2,242,000
	498,244,000	*516,932,000*	*389,518,000*
	4,097,672,000	3,695,309,000	3,265,341,000

	Year ended March 31		
	1971	1970	1969
Deduct:			
Annuity payments	$ 94,800,000	$ 83,326,000	$ 74,683,000
Termination allowances and return of contributions	11,320,000	10,525,000	10,275,000
Other charges	1,545,000	2,030,000	2,006,000
	107,665,000	*95,881,000*	*86,964,000*
Balance at end of year	$ 3,990,007,000	$ 3,599,428,000	$ 3,178,377,000

CANADIAN FORCES SUPERANNUATION ACCOUNT

	Year ended March 31		
	1971	1970	1969
Balance at beginning of year	$ 3,306,389,000	$ 3,023,617,000	$ 2,723,268,000
Add:			
Interest	135,639,000	124,396,000	112,169,000
Actuarial adjustments—contra—"deferred charges" account, *re:*			
pay increases	107,500,000	129,000,000	121,900,000
deficit at December 31, 1965	—	—	37,700,000
Contributions by the Government	70,407,000	65,566,000	56,982,000
Contributions by participants	39,178,000	38,724,000	33,889,000
Other credits	1,000	4,000	8,000
	352,725,000	*357,690,000*	*362,648,000*
	3,659,114,000	3,381,307,000	3,085,916,000
Deduct:			
Annuity payments	82,051,000	67,426,000	55,202,000
Termination allowances and return of contributions	6,277,000	7,427,000	6,983,000
Other charges	147,000	65,000	114,000
	88,475,000	*74,918,000*	*62,299,000*
Balance at end of year	$ 3,570,639,000	$ 3,306,389,000	$ 3,023,617,000

ROYAL CANADIAN MOUNTED POLICE SUPERANNUATION ACCOUNT

	Year ended March 31		
	1971	1970	1969
Balance at beginning of year	$ 165,765,000	$ 130,811,000	$ 104,724,000
Add:			
Actuarial adjustments—contra—"deferred charges" account, *re:* pay increases	14,200,000	19,200,000	12,740,000
Contributions by the Government	9,115,000	7,372,000	6,551,000
Interest	6,908,000	5,455,000	4,495,000
Contributions by participants	5,211,000	4,196,000	3,358,000
Contributions by Newfoundland	17,000	17,000	17,000
Other credits	26,000	30,000	28,000
	35,477,000	*36,270,000*	*27,189,000*
	201,242,000	167,081,000	131,913,000

	Year ended March 31 1971	1970	1969
Deduct:			
Annuity payments	$ 1,260,000	$ 996,000	$ 881,000
Termination allowances and return of contributions	250,000	304,000	210,000
Other charges	15,000	16,000	11,000
	1,525,000	*1,316,000*	*1,102,000*
Balance at end of year	$ 199,717,000	$ 165,765,000	$ 130,811,000

CANADA PENSION PLAN ACCOUNT

	Year ended March 31 1971	1970	1969
Balance at beginning of year	$ 2,932,258,000	$ 2,107,758,000	$ 1,352,754,000
Add:			
Contributions from employers and employees	812,867,000	745,646,000	697,626,000
Interest	206,646,000	143,508,000	86,810,000
Other credits	549,000	404,000	590,000
	1,020,062,000	*889,558,000*	*785,026,000*
	3,952,320,000	2,997,316,000	2,137,780,000
Deduct:			
Benefit payments	89,236,000	47,346,000	15,567,000
Administrative expense	19,507,000	17,712,000	14,455,000
	108,743,000	*65,058,000*	*30,022,000*
Balance at end of year	$ 3,843,577,000	$ 2,932,258,000	$ 2,107,758,000

OLD AGE SECURITY FUND

	Year ended March 31 1971	1970	1969
Collection of tax—			
On sales	$ 573,849,000	$ 577,441,000	$ 528,122,000
On personal incomes	1,132,500,000	1,026,500,000	915,000,000
On corporation incomes	207,900,000	227,100,000	183,000,000
	1,914,249,000	1,831,041,000	1,626,122,000
Payment of pensions under the Old Age Security Act	1,907,225,000	1,730,535,000	1,541,319,000
Surplus for the year	7,024,000	100,506,000	84,803,000
Preceding year's surplus brought forward	721,398,000	620,892,000	536,089,000
Surplus at end of year	$ 728,422,000	$ 721,398,000	$ 620,892,000

GOVERNMENT ANNUITIES ACCOUNT

	Year ended March 31		
	1971	1970	1969
Balance at beginning of year	$ 1,321,080,000	$ 1,324,635,000	$ 1,326,098,000
Add:			
Interest	51,051,000	51,092,000	51,048,000
Premiums	11,066,000	12,896,000	14,915,000
Sundry adjustments	29,000	26,000	18,000
	62,146,000	*64,014,000*	*65,981,000*
	1,383,226,000	1,388,649,000	1,392,079,000
Deduct:			
Vested annuity and commuted value payments and refunds	68,690,000	67,167,000	66,643,000
Transfer to revenue of the excess over actuarial value of outstanding contracts	757,000	402,000	801,000
	69,447,000	*67,569,000*	*67,444,000*
Balance at end of year	$ 1,313,779,000	$ 1,321,080,000	$ 1,324,635,000

The following is a listing of the major items included in "Other" annuity, insurance and pension accounts at March 31, 1971 in comparison with the balances at the close of the two previous years:

	March 31, 1971	March 31, 1970	March 31, 1969
Veterans Insurance Fund	$ 32,685,000	$ 32,423,000	$ 32,146,000
Civil Service Insurance Fund	22,499,000	23,423,000	23,814,000
Regular Forces Death Benefit Account	21,460,000	20,696,000	19,611,000
Public Service Death Benefit Account	21,368,000	19,048,000	16,383,000
Returned Soldiers' Insurance Fund	8,968,000	9,639,000	10,204,000
Royal Canadian Mounted Police (Dependants) Pension Fund	8,494,000	8,439,000	8,282,000
Supplementary Retirement Benefits Account	6,587,000	—	—
Members of Parliament Retiring Allowances Account	4,294,000	2,758,000	2,621,000
Crop Reinsurance Fund	3,694,000	4,569,000	3,348,000
Pilots' Pension Funds	605,000	4,479,000	4,108,000
Sundry	829,000	938,000	1,379,000
	$ 131,483,000	$ 126,412,000	$ 121,896,000

The Supplementary Retirement Benefits Account was established by the Supplementary Retirement Benefits Act, *R.S.(1st Supp.), c.43,* to provide for increases in pensions related to the cost of living (but limited to 2% per annum) for members of the Public Service, Canadian Forces, Royal Canadian Mounted Police, Parliament, and others. Employees contribute an amount equal to one-half of one per cent of salary and the Government matches this contribution. Interest is credited to the Account at a rate related to the market yield of outstanding Government of Canada bonds having a term to maturity of five years.

The following is a summary of the transactions in the Members of Parliament Retiring Allowances Account during the past three years:

	Year ended March 31		
	1971	1970	1969
Balance at beginning of year	$ 2,758,000	$ 2,621,000	$ 2,559,000
Add:			
Contributions by the Government	1,192,000	218,000	212,000
Contributions by participants	638,000	235,000	236,000
Interest	118,000	106,000	103,000
	1,948,000	*559,000*	*551,000*
	4,706,000	3,180,000	3,110,000
Deduct:			
Annual allowances	397,000	416,000	398,000
Withdrawal allowances and return of contributions	15,000	6,000	91,000
	412,000	*422,000*	*489,000*
Balance at end of year	$ 4,294,000	$ 2,758,000	$ 2,621,000

The Crop Reinsurance Fund was established by the Crop Insurance Act, *R.S., c. C-36.* In 1970-71 moneys amounting to $265,000 paid by two provinces under reinsurance agreements were credited to the Fund, and claims amounting to $1,140,000 were paid to one province.

Under authority of Part VI of the Canada Shipping Act, *R.S., c. S-9,* the pilotage authorities at Saint John, Halifax and Montreal have established pilots' pension funds. Effective February 1, 1971 the balance of the Montreal Pilots' Pension Fund, $4,215,000, was transferred to a trust company for administration.

230. *Undisbursed balances of appropriations to special accounts.* The balances included under this heading at March 31, 1971, with the comparable balances at the close of the two previous years, were:

	March 31, 1971	March 31, 1970	March 31, 1969
Reserve for salary revisions	$ 99,213,000	$ 64,332,000	$ 120,529,000
International Assistance Account	82,599,000	84,942,000	86,386,000
Reserve for wheat inventory reduction and grassland incentive payments	42,412,000	100,000,000	—
Surplus Crown Assets Account—Department of National Defence	22,991,000	10,769,000	13,122,000
National Capital Fund—National Capital Commission	13,500,000	11,800,000	3,750,000
Railway Grade Crossing Fund	3,373,000	—	8,225,000
Other	2,510,000	1,555,000	3,496,000
	$ 266,598,000	$ 273,398,000	$ 235,508,000

In 1970-71 the Reserve for salary revisions was credited with $65 million provided by Treasury Board Vote 5 and charged with expenditure of $30 million.

The International Assistance Account was established under authority of External Affairs Vote 33d, Appropriation Act No. 2, 1965, *1964-65, c.50.* The Account provides for economic, technical and educational assistance to developing countries and special administrative and other expenses in connection therewith. In 1970-71 the Account was credited with $65 million provided by External Affairs Vote 20 and charged with expenditure of $67 million.

The Reserve for wheat inventory reduction and grassland incentive payments was established by Agriculture Vote 17b, Appropriation Act No. 1, 1970, *1969-70, c.24,* to provide for payments in 1970-71 for wheat acreage reduction of $6 per acre up to a maximum of 1,000 acres per Canadian Wheat Board permit book-holder. Payments during the year totalled $58 million leaving an undisbursed balance of $42 million at March 31, 1971. The purposes of the reserve were extended by Agriculture Vote 15c, Appropriation Act No. 1, 1971, *1970-71-72, c.25,* to provide for grassland incentive payments, in 1971-72 and subsequent years, to farmers within designated areas as defined by the Canadian Wheat Board Act, *R.S., c. C-12.*

The Surplus Crown Assets Account—Department of National Defence was established by Vote 48 of Appropriation Act No. 2, 1966, *1966-67, c.3.* Proceeds from the sale of surplus materials, supplies, equipment and, subject to annual limits up to 1968-69, from the sale of surplus buildings, works and land are credited to the Account and, subject to approval of the Treasury Board, expenditure for any of the purposes of the Department of National Defence is charged to this Account. In 1970-71 the Account was credited with proceeds from sales of $13 million and charged with expenditure of $800,000.

The National Capital Fund was established by the National Capital Act, *R.S., c.N-3,* to finance the cost of capital projects, as approved by the Governor in Council, in the national capital area. In 1970-71 the Fund was credited with $17 million provided by Regional Economic Expansion Vote 45 and $15.3 million was transferred to the National Capital Commission to finance the costs of approved projects and to repay loans from Canada for the acquisition of property.

The Railway Grade Crossing Fund was established by section 202 of the Railway Act, *R.S., c. R-2.* The amounts credited to the Fund can be applied by the Canadian Transport Commission towards the cost, not including maintenance and operation, of work done in respect of existing crossings at rail level; of reconstruction and improvement of grade separations; and of placing reflective markings on the sides of railway cars. In 1970-71 the Fund was credited with $20 million provided by Transport Vote 60 and charged with expenditure of $17 million.

231. *Refundable corporation tax.* This account records amounts received from corporations and trusts as special refundable income tax computed in accordance with Part IID of the Income Tax Act, *R.S. 1952, c. 148.* This special tax applied to the period May 1, 1966 to October 31, 1967 and is refundable, with interest at 5% per

annum, from 18 to 36 months after the date of receipt. During the year $5 million, including interest of $4 million, was credited to this account and $40 million was paid out, leaving a balance of $3 million.

232. *Provision for compound interest on Canada Savings Bonds.* Certain issues of Canada Savings Bonds provide for payment of additional interest where bondholders do not claim interest for certain stipulated periods of time. The balance of $18,582,000 in the account represents the provision to March 31, 1971 for this additional interest.

233. *Deferred credits.* The following is an analysis of this item at the close of the 1970-71 fiscal year and the two previous years:

	March 31, 1971	March 31, 1970	March 31, 1969
Deferred interest on loans made under The United Kingdom Financial Agreement Act, 1946, *1946, c. 12*	$ 101,077,000	$ 101,077,000	$ 101,077,000
Deferred interest on loans to The St. Lawrence Seaway Authority	84,093,000	71,864,000	60,610,000
Capitalized interest on loans to provincial governments pursuant to the Atlantic Provinces Power Development Act, *R.S., c. A-17*	15,736,000	8,843,000	2,745,000
Equity in agency account of Crown Assets Disposal Corporation	12,581,000	9,181,000	7,761,000
Other balances	3,327,000	1,963,000	2,133,000
	$ 216,814,000	$ 192,928,000	$ 174,326,000

These amounts are credited to revenue of the year in which payment is received.

234. *Suspense accounts.* With certain exceptions, these consist of balances where some uncertainty as to their disposition exists. The largest item is "Unclaimed cheques account" which totalled $1.5 million at March 31, 1971.

235. *Unmatured debt.* A summary of the unmatured debt at March 31, 1971, with the comparable balances at the close of the two previous years, follows:

	March 31, 1971	March 31, 1970	March 31, 1969
Bonds—			
Payable in Canadian dollars	$ 21,129,039,000	$ 19,295,185,000	$ 18,818,550,000
Payable in United States dollars	263,273,000	265,003,000	266,733,000
Payable in German marks	73,844,000	73,844,000	67,567,000
Payable in Italian lire	—	108,108,000	108,108,000
	21,466,156,000	*19,742,140,000*	*19,260,958,000*
Treasury bills	3,735,000,000	2,895,000,000	2,840,000,000
	$ 25,201,156,000	$ 22,637,140,000	$ 22,100,958,000

The increase of $1,834 million in the bonds payable in Canadian dollars is the amount by which new borrowings of $4,891 million exceeded redemptions of $3,057

million. Canada Savings Bonds accounted for $1,226 million of the increase which resulted from $2,205 million of new issues and $979 million of redemptions.

The indebtedness payable in United States dollars is expressed in Canadian dollars at the exchange rate of $1 US = $1.08108 Canadian.

The official parity rate for German marks was DM3.66 = $1 US. The indebtedness payable in this currency is converted to US currency at that rate and then, along with the indebtedness payable in United States dollars, is recorded at the rate of $1 US = $1.08108 Canadian.

The treasury bills indebtedness of $3,735,000,000 comprises: three-month bills, $2,145,000,000; six-month bills, $1,115,000,000; and 364-day bills, $475,000,000.

Net Debt

236. With the Liabilities amounting to $42,975,825,000 (paragraph 225) and the Assets to $25,653,451,000 (paragraph 214), the Net Debt at March 31, 1971 was $17,322,374,000. The following is an analysis of the Net Debt Account for the year:

Balance at April 1, 1970		$ 16,943,282,000
Deficit for the year—		
Expenditure	$ 13,182,143,000	
Revenue	12,803,051,000	
		379,092,000
Balance at March 31, 1971		$ 17,322,374,000

Contingent Liabilities

237. A note on the Statement of Assets and Liabilities gives the totals of the several classes of contingent liabilities at the year-end and refers to page 10.82 of the Public Accounts (Volume I) where details are to be found.

The following is a summary of the contingent liabilities with determinate amounts outstanding at March 31, 1971 in comparison with the corresponding amounts at the close of the two previous years:

	March 31, 1971	March 31, 1970	March 31, 1969
Insured loans made by approved lenders under the National Housing Act, *R.S., c. N-10*	$ 8,051,000,000	$ 7,327,000,000	$ 6,732,000,000
Railway securities guaranteed as to principal and interest	1,004,537,000	1,050,476,000	1,131,366,000
Loans made by chartered banks under various Acts	559,700,000	454,305,000	358,835,000
Guarantees under the Export Development Act, *R.S., c. E-18*, and its predecessor, Export Credits Insurance Act, *R.S., 1952, c. 105*	524,600,000	328,744,000	332,966,000
Loans made by chartered banks to the Canadian Wheat Board	338,032,000	578,000,000	394,900,000

	March 31, 1971	March 31, 1970	March 31, 1969
Home improvement loans under the National Housing Act	$ 22,317,000	$ 22,048,000	$ 21,116,000
Loans made under the Cape Breton Development Corporation Act, *R.S., c. C-13*	30,000,000	—	—
Loans made under the General Adjustment Assistance Program	6,823,000	—	—
	$ 10,537,009,000	$ 9,760,573,000	$ 8,971,183,000

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to 1954.

Comments on Assets and Liabilities

238. Section 55 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

239. *Statement of Assets and Liabilities—Policy.* The Statement of Assets and Liabilities as at March 31, 1971 was prepared by the Receiver General on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the Public Accounts:

> With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of $1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.
>
> On the liabilities side, accrued liabilities (except for interest accrued on the Public Debt) are not taken into account in determining the obligations of the government. However, under section 30 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the "current and demand liabilities" schedule to the statement of assets and liabilities.

This explanation reflects a policy established by the Minister of Finance in 1920, that assets to be included in the Statement of Assets and Liabilities should be confined to those which are readily convertible or which are revenue-producing. The Minister had immediately implemented this policy by removing from the Statement of Assets and Liabilities a substantial amount in loans, etc., which could not meet this test.

This policy has been followed by successive Ministers of Finance ever since but a major exception was introduced in 1957-58 when funds required by the National Capital Commission for the purchase of lands in the Greenbelt were recorded as loans to the Commission instead of budgetary expenditure as had formerly been the case. They were given the appearance of being revenue-producing by asking Parliament to appropriate money to the National Capital Commission with which to pay interest on the loans. The practice was later extended to the financing of other agencies.

Brief details of exceptions to established policy, some of which we have commented on in previous Reports (paragraph 210 in 1970), are as follows:

Loans to, and investments in, Crown corporations

CANADIAN BROADCASTING CORPORATION. Funds required by the Corporation for capital expenditure since April 1, 1964 have been provided in the form of loans. Loans outstanding at March 31, 1971 amounted to $111,005,000. Each loan is repayable in equal annual instalments over 20 years at interest rates varying from 5 1/4% to 8 1/2%.

CANADIAN NATIONAL RAILWAYS. An amount of $735,000 was provided to the Canadian National Railways under authority of Transport Vote 542, Appropriation Act No. 4, 1954, *1953-54, c.67,* and Transport Vote 546, Appropriation Act No. 5, 1955, *1955, c.60,* towards the construction cost of a new dock and facilities at Bar Harbour, Maine, U.S.A. The loan, which does not bear interest, has been reduced by annual payments of about $25,000, to $367,000 at March 31, 1971. These annual payments are charged as an operating cost of the ferry service, thus increasing the annual deficit of that service which is provided for by an annual appropriation of Parliament.

NATIONAL CAPITAL COMMISSION. Funds required by the Commission for the purchase of Greenbelt lands and certain other lands have, since 1957-58, been provided in the form of loans which amounted to $61,480,000 at March 31, 1971, comprising loans of $38,081,000 for acquiring Greenbelt lands and $23,399,000 for acquiring other lands. These loans bear interest at rates varying from 4% to 8 7/16% and are repayable only if and when the properties are sold or put into use by the Government for other than Greenbelt purposes.

Miscellaneous

GOVERNMENT OF THE NORTHWEST TERRITORIES. Of the loans to the Government of the Northwest Territories, amounting to $30,027,000 at March 31, 1971, an aggregate of $28,806,000 represents loans made in the years 1959 to 1971 for capital expenditure purposes. The loans are repayable over periods of from 5 to 20 years and bear interest at rates varying from 4 1/8% to 8 1/2%. By agreement, Canada pays an annual amortization subsidy equivalent to the principal and interest due each year, less all moneys repaid to the Territorial Government in the year by local administrative districts in respect of loans made to them by the Territories from moneys borrowed from Canada.

GOVERNMENT OF THE YUKON TERRITORY. Of the loans to the Government of the Yukon Territory, amounting to $25,391,000 at March 31, 1971, an aggregate of $20,382,000 represents loans made during the years 1958 to 1971 for capital expenditure purposes. The loans are repayable over periods of from 5 to 30 years and bear interest at rates varying from 4 1/8% to 8 1/2%. By agreement, Canada pays an annual amortization subsidy equivalent to the principal and interest due each year, less all moneys repaid to the Territorial Government in the year by the local administrative districts in respect of loans made to them by the Territory from moneys borrowed from Canada.

The Public Accounts Committee holds the view that outlays on property in the Greenbelt are expenditures of the Crown rather than income-producing investments and on two occasions requested the Department of Finance to review the practice with the National Capital Commission, with a view to placing the financing of the Commission on a more realistic basis. (See Appendix 1, item 5.) In its Seventh Report 1966-67 the Public Accounts Committee stated that it was disturbed to learn that not only was no review undertaken by the Department of Finance in the case of

the National Capital Commission, but that the practice was continued and further extended in 1964-65 when the House was asked to approve loans to the Canadian Broadcasting Corporation. The Committee reiterated its opinion that "expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada". (See Appendix 1, item 17.)

In August 1969 the National Capital Commission received a directive from the Treasury Board with respect to loans for the purchase of property other than in the Greenbelt under which, starting in 1970-71, loans would be provided only to acquire, improve and service properties which are to be sold to other users, thereby enabling the Commission to repay the loans. In view of this directive, the additional loans of $2 million during the year for the purchase of property, other than for the Greenbelt, which is not for resale should have been charged to expenditure.

The practice of requesting Parliament to provide loan appropriations rather than grant appropriations was further extended in 1969 when Transport Votes L107b and L110b, Appropriation Act No. 1, 1969, *1968-69, c.23,* provided $16 million for the construction and acquisition of ferry vessels and $17 million to finance the construction of roads and bridges to improve transportation with respect to the Vancouver International Airport. Although, with minor exceptions, this was the first occasion on which it was proposed to depart from the long-standing policy of charging the cost of capital works to expenditure, the House of Commons was not informed of the change or of the fact that $33 million which would have been recorded as expenditure of the year under the established policy was not to be so charged resulting in a corresponding reduction in the recorded deficit for the year. When the 1968-69 Supplementary Estimates (B) were being considered by the Miscellaneous Estimates Committee on February 27, 1969 an official of the Treasury Board explained Vote L107b as follows:

> These loans will be used to finance the acquisition and construction over the next two years of three vessels for the P.E.I. ferry service. It is planned to acquire one used ferry vessel for delivery in the spring of 1969 and to construct two additional summer-type ferries at a cost of $5 million each for delivery in 1971.

and the Minister of Transport explained Vote L110b as follows:

> Actually these loans are for the construction of two bridges being built by the National Harbours Board; one over the Middle Arm of the Fraser and one over the North Arm called the Hudson Street Approach. These bridges will be operated as full facilities and the tolls will be used to pay off the loans.

In actual fact the bridges are being built by the Department of Transport as is evidenced by the fact that payments are recorded in the accounts of the Department and not in the accounts of the National Harbours Board.

This practice has also been followed in using loan votes for the acquisition of capital assets at the Montreal and Toronto International Airports and for the Computer Services Bureau.

Moneys advanced under authority of these loan votes and recorded under "Advances, loans and investments—Domestic" are not loans but are in fact funds provided for the acquisition of capital assets. Brief details of these exceptions to established policy follow:

AIRPORTS CAPITAL LOANS. During the year capital expenditure totalling $59,276,000 at the Montreal and Toronto International Airports was charged to the Airports Revolving Fund pursuant to Transport Vote L160, Appropriation Act No. 3, 1969, *1968-69, c.36,* which authorized the operation of the Fund. To the extent of $18,071,000, this capital expenditure was financed from revenue under authority of Transport Vote L160, with the remaining $41,205,000 being provided from Transport Vote L45, Appropriation Act No. 3, 1970, *1969-70, c.46,* which authorized payment of $67,829,000 in 1970-71 and subsequent fiscal years. At March 31, 1971 a total of $46,331,000 had been advanced as airports capital loans.

VANCOUVER INTERNATIONAL AIRPORT—CONSTRUCTION OF BRIDGES. At March 31, 1971 a total of $4,204,000 had been paid from Transport Vote L110b, Appropriation Act No. 1, 1969, *1968-69, c.23,* to contractors for work performed. This Vote authorized loans to an amount of $17,125,000 in 1968-69 and subsequent fiscal years to finance the construction of bridges and a network of arterial roads to improve transportation to the Vancouver International Airport. Advances during the year amounted to $1,225,000. Present planning contemplates the levy of tolls in respect of this network which together with other receipts are to be applied to expenditures associated with the network, including payments of interest and principal on these loans.

CONSTRUCTION AND ACQUISITION OF FERRY VESSELS AND RELATED EQUIPMENT. Transport Vote L107b, Appropriation Act No. 1, 1969, *1968-69, c.23,* authorized loans up to $16,000,000 in 1968-69 and subsequent years for the purchase of a ferry vessel and the construction of two additional ferries. During the year a payment of $8,200,000 was made increasing the total amount advanced to $13,922,000. This was reduced to $13,306,000 at the year-end by a repayment of $616,000 provided for by Transport Vote 20. Annual payments of principal and interest, which begin in the year in which each vessel enters service, are charged as operating costs and included in the Prince Edward Island Ferry Service Deficit, which is provided for by means of an annual parliamentary appropriation.

COMPUTER SERVICES BUREAU. A loan of $176,000 was made to the Computer Services Bureau Revolving Fund under the authority of Supply and Services Vote L11c, Appropriation Act No. 1, 1971, *1970-71-72, c.25,* to cover the estimated depreciated value of the Bureau's capital assets as at March 31, 1971. However, the depreciated value of the capital assets at March 31, 1971 was only $154,000, and the excess of the advance over this amount is being refunded in 1971-72.

Under the policy outlined at the beginning of this section, the cost of government buildings, vessels and other capital works and equipment is charged to expenditure at the time of acquisition or construction because departments are dependent on public revenue for their capital needs. The Crown corporations and other bodies referred to previously are also dependent on public revenue for their capital needs.

These exceptions to long-standing policy have had the effect of understating the Deficit or overstating the Surplus in the Public Accounts each year since 1958.

To the extent that parliamentary appropriations are required in later years to provide for repayment of the loans, the Deficit will increase or the Surplus decrease in those years. (See paragraph 55 of this Report.)

If certain capital assets are to be included in the Statement of Assets and Liabilities, then a formal change of policy is required and steps should also be taken to bring all similar capital assets on to the Statement. Furthermore, the assets should be described as capital assets and should not be categorized as loans, which is incorrect.

240. *Accounts receivable.* Taxes and sundry accounts receivable are not recorded as assets in the Statement of Assets and Liabilities but information regarding these accounts at March 31, 1971, in comparison with the corresponding information at the close of the preceding year, is set forth in the Comparative Statement of Accounts Receivable in section 27 of Volume II of the Public Accounts. This Statement shows a total of $503 million of which $27 million is classified as uncollectable.

There are a number of inaccuracies in the Statement. For example, the total reported for the Department of Indian Affairs and Northern Development is $1,273,000 whereas it should be $1,469,000; the total of $5,980,000 reported for the Department of Transport should be $5,728,000; and the total of $8,724,000 reported for the Department of Veterans Affairs should be $8,421,000. The report for the Department of Finance shows $4,645,000 as receivable from other government departments whereas, in fact, the entire amount is receivable from the general public.

Deletions from accounts receivable during the year were as follows:

	Number of accounts	Amount
Appropriation Act No. 1, 1971, *1970–71–72, c. 25*—		
Various departmental votes—amounts in excess of $5,000	106	$ 1,886,000
Financial Administration Act—section 18—amounts of $5,000 or less	13,742	3,218,000
Bankruptcy Act, *R.S., c. B-3*—section 148—discharged bankrupts	2,093	2,020,000
Unemployment Insurance Act, *R.S., c. U-2*—		
section 42—unpaid contributions	1,817	309,000
section 67—overpaid benefits	2,165	183,000
Department of Justice Act, *R.S., c. J-2*—section 5 (d)	2	5,000
	19,925	$ 7,621,000

A summary of deletions by department follows:

	Number of accounts	Amount
Agriculture	1	$ 19,000
External Affairs—		
Department	172	13,000
Canadian International Development Agency	214	24,000
	386	*37,000*
Finance	809	492,000
Indian Affairs and Northern Development	1,426	356,000
Industry, Trade and Commerce	217	6,000
Labour—		
Unemployment Insurance Commission	79	3,000
Unemployment Insurance Fund	3,982	492,000
	4,061	*495,000*
Manpower and Immigration	362	24,000
National Defence	595	108,000
National Health and Welfare	618	43,000
National Revenue—		
Customs and Excise	682	1,757,000
Taxation	7,188	3,044,000
	7,870	*4,801,000*
Public Works	453	22,000
Regional Economic Expansion	49	10,000
Solicitor General—Royal Canadian Mounted Police	38	22,000
Supply and Services	136	2,000
Transport	1,216	242,000
Treasury Board—National Research Council of Canada	63	2,000
Veterans Affairs	1,585	939,000
Other	40	1,000
	19,925	$ 7,621,000

We have established $1,157,000, compared with $6,091,000 at the close of the previous year, as the total of the interdepartmental accounts which should have been settled before the books were closed for the year. Of this amount $89,000 remains outstanding from previous years. A listing, by department, of amounts due from other departments at March 31, 1971 follows:

	Accounts arising in	
	Current year	Prior years
Consumer and Corporate Affairs	$ 6,000	$ —
Energy, Mines and Resources	23,000	5,000
External Affairs	3,000	1,000
Fisheries and Forestry	32,000	—
Indian Affairs and Northern Development	3,000	45,000
Industry, Trade and Commerce	9,000	4,000
Justice	8,000	—
National Defence	124,000	9,000
National Health and Welfare	139,000	—
Public Works	42,000	—
Secretary of State	225,000	—
Solicitor General	58,000	—
Supply and Services	24,000	1,000
Transport	260,000	21,000
Treasury Board—National Research Council of Canada	98,000	—
Veterans Affairs	13,000	1,000
Other	1,000	2,000
	$ 1,068,000	$ 89,000

These accounts were not settled due to delays in submitting billings or delays by debtor departments in processing invoices. Failure to settle these accounts at the year-end results in the expenditure of some departments being understated and, conversely, the expenditure of the servicing departments being overstated.

Not included in these accounts is a total of $245,000 paid by the Canadian International Development Agency in 1971-72 from the International Assistance Account but recorded by the four receiving departments as 1970-71 business (see paragraph 61 of this Report).

Some $8,400 receivable by the Department of Transport from other government departments was classified as uncollectable. However, most of this has been paid since the year-end.

In previous Reports (paragraph 211 in 1970) we have drawn attention to the fact that some departments were not keeping their accounts receivable accurately and efficiently in that they were not maintaining control accounts or providing for an effective verification of the accounts by officers other than those responsible for keeping them. In last year's Report we stated that there had been general improvement in these accounts as the result of the development of a Treasury Board policy with respect to revenue control, and further improvement was noted during the year. However, test examinations indicated that in some departments the handling of accounts receivable still falls short of desirable standards. Comments on these departments along with pertinent information with regard to the receivables of other departments are set forth in the ensuing paragraphs.

241. *Accounts receivable—Department of National Revenue.* Of the accounts receivable at March 31, 1971, $440 million relates to the Department of National Revenue. With the co-operation of officials of the Department, analyses have been prepared showing the nature and amounts of these unpaid accounts. Further details are to be found in the report of the Department of National Revenue for the year ended March 31, 1971 and on page 27.2 of Volume II of the Public Accounts.

CUSTOMS AND EXCISE. The following is a summary of the Customs and Excise accounts receivable at March 31, 1971 with comparable amounts at the close of the previous year:

	March 31, 1971	March 31, 1970
Excise taxes	$ 10,321,000	$ 14,362,000
Duties and taxes on importations	2,455,000	3,230,000
Customs seizures	1,457,000	1,476,000
Investigations	55,000	127,000
Interdepartmental	—	17,000
Sundry	13,000	14,000
	$ 14,301,000	$ 19,226,000

Of the total of $14.3 million, collection action was being taken on 8,481 accounts totalling $5.6 million. The remaining $8.7 million had not been collected for the following reasons:

	Number of accounts	Amount
Under appeal	1,985	$ 1,644,000
Insolvencies	164	1,219,000
Uncollectable	1,706	5,832,000
	3,855	$ 8,695,000

These accounts receivable do not represent all moneys owing at March 31, 1971. They do not include duties and taxes owing on goods that have been imported illegally where the Minister had not rendered a decision as to the penalties to be imposed, the unpaid portion of duties and taxes on temporary importations from which relief is being sought from the Governor in Council and, as noted in paragraph 151 of this Report, duties and taxes estimated at $6,324,000 owing by a major motor vehicle manufacturer who failed to meet the conditions of a conditional remission order.

Of the $10.3 million of excise taxes receivable, which includes $1.6 million in penalties, the Department estimates that $4.9 million will not be collected.

There is no requirement that interest be charged on overdue accounts although a monthly penalty of 2/3 of 1% is charged on overdue excise taxes.

In previous Reports (paragraph 212 in 1970) we have stated that the Department of National Revenue, Customs and Excise was preparing to extend the system of control accounts to include all receivables. This has not yet been accomplished but in general its system of control over receivables has been improved by providing for an effective record of individual accounts.

During the year accounts amounting to $1,757,000 were deleted under authority of:

	Number of accounts	Amount
Appropriation Act No. 1, 1971, *1970–71–72, c. 25*— Customs and Excise Vote 1c	77	$ 1,236,000
Financial Administration Act—section 18	512	424,000
Bankruptcy Act, *R.S., c. B-3*—section 148	91	92,000
Department of Justice Act, *R.S., c. J-2*—section 5(d)	2	5,000
	682	$ 1,757,000

TAXATION. The following is a summary of the Taxation accounts receivable at March 31, 1971 with comparable amounts at the close of the previous year:

	March 31, 1971	March 31, 1970
Income tax—		
Individuals	$ 242,416,000	$ 171,144,000
Corporations	124,573,000	113,771,000
Tax deductions	23,145,000	18,789,000
Non-residents	4,698,000	4,051,000
Deferred tax	4,072,000	4,563,000
	398,904,000	*312,318,000*
Estate tax and succession duty	26,581,000	20,992,000
Sundry	17,000	12,000
	$ 425,502,000	$ 333,322,000

The Department of National Revenue, Taxation, has stated that the increase in accounts receivable was due to:

— increased assessing activity in the last three months of the fiscal year over the same period in the previous year,

— suspension of normal collection action for a period of seven weeks during conversion of accounting records to new computer equipment,

— economic conditions including high interest rates in comparison with the Department's 6% rate (see paragraph 155 of this Report), and

— a public statement of the Department's collection policy with reference to acceptance of reasonable payment arrangements.

Of the total of $426 million receivable at March 31, 1971, $155 million (36%) represented 267,584 accounts which were undergoing the normal collection process. The remaining $271 million had not been collected for the following reasons:

	Number of accounts	Amount
Current assessments	179,229	$ 81,485,000
Uncollectable	7,693	15,502,000
Bankrupts	6,397	20,968,000
Under appeal	2,284	148,629,000
Deferred tax	2,806	4,072,000
	198,409	$ 270,656,000

During the year accounts amounting to $3,044,000 were deleted under authority of:

	Number of accounts	Amount
Financial Administration Act—section 18	5,188	$ 1,117,000
Bankruptcy Act—section 148	2,000	1,927,000
	7,188	$ 3,044,000

242. *Accounts receivable—Department of Agriculture.* The accounts receivable of this Department at March 31, 1971 do not include the overpayments totalling $289,000 to tree-fruit and grape growers described in paragraph 65 of this Report and $529,000 to farmers under the wheat inventory reduction program described in paragraph 64 of this Report. As stated in the latter paragraph the farmers concerned were not notified of the overpayments until September 1971 and the overpayments were not brought under accounting control until November 1971.

243. *Accounts receivable—Department of Communications.* The accounts receivable of this Department at March 31, 1971 are recorded as $13,000. While the amount is not substantial, we have noted that no control account is maintained and the accounts are not accurately kept, as evidenced by a number of posting and other errors which resulted in several revisions of the statement prepared by the Department for inclusion in the Public Accounts.

244. *Accounts receivable—Department of External Affairs.* The accounts receivable of this Department include an amount of $1,763,000 owing to Canada from the fund known as the "Common Pool" established by the Geneva Conference on the problem of restoring peace in Indo-China. An additional amount of $1,319,000 is recoverable on behalf of the Department of National Defence. This total of $3,082,000, an increase of $108,000 over the preceding year, represents certain costs incurred by Canada as far back as 1960-61 in serving on the International Commissions for

Supervision and Control in Cambodia, Laos and Viet-Nam. No payment has been received from the "Common Pool" since February 1963 but Canada's assessments towards financing the Laos International Commission since 1962-63, amounting to $240,000 ($18,000 in 1970-71), have been applied against the indebtedness.

We understand that the failure of The People's Republic of China to continue its contributions has resulted in the "Common Pool" being unable to pay all of the costs for which it is responsible.

As has been pointed out in previous Reports (paragraph 213 in 1970), in the absence of any reimbursement from the "Common Pool" in recent years, new financing arrangements should be sought.

In its Sixth Report 1970-71, presented to the House on June 30, 1971, the Public Accounts Committee recommended "that the Department of External Affairs consider the advisability of taking diplomatic initiatives to resolve the situation". (See Appendix 1, item 37.)

245. *Accounts receivable—Department of Indian Affairs and Northern Development.* The recorded accounts receivable of this Department at March 31, 1971, including uncollectable accounts of $241,000, amounted to $1,469,000 but have been recorded in the Public Accounts as amounting to only $1,273,000.

In our past five Reports (paragraph 214 in 1970) we have referred to shortcomings in the Department's handling of accounts receivable. In our 1970 Report we also made reference to a departmental task force which had been established to review the systems for the control, recording, collection and write-off of accounts receivable. The report and recommendations of the task force, submitted in January 1971, have been accepted and when implemented should result in a fully adequate system.

246. *Accounts receivable—Department of Manpower and Immigration.* In previous Reports (paragraph 215 in 1970) we have stated that accounts receivable had been understated by the Department due to the omission of interest receivable on assisted passage loans to immigrants and on assisted movement loans to workers, that control accounts had not been established for some sections of the accounts, and that a substantial portion of the remaining accounts were not in agreement with their respective control accounts.

The Public Accounts Committee considered the comment in our 1969 Report on April 6. 1971 and, after hearing explanations from departmental officials, recommended in its Sixth Report presented to the House on June 30, 1971, "that the Department make a greater effort to collect on its loans".

During the year the Department made progress in the establishment of control accounts. Of receivables totalling $1,682,000 at March 31, 1971, control accounts were in effect for all except $30,000 of miscellaneous accounts. However, minor discrepan-

cies still existed between three of eight account trial balances and the respective control accounts. These were being investigated by the Department.

The Department categorized accounts totalling $53,000 at March 31, 1971 as uncollectable. Our examination, however, indicated that many other accounts should have been similarly classified, as evidenced by the fact that only $13,000 had been collected since inception on accounts receivable relating to the Canada Manpower Training Program totalling $345,000, and assistance to immigrants totalling $251,000 had been outstanding three or more years.

247. *Accounts receivable—Department of National Defence.* This Department reported accounts receivable of $18,186,000 at March 31, 1971 which included:

United Nations—Special funds	$ 5,506,000
International Commissions for Supervision and Control in Cambodia, Laos and Viet-Nam	1,319,000
Assistance to Provinces	797,000
Federal Republic of Germany	680,000
Canadian Corporation for the 1967 World Exhibition	100,000

The balance of $5,506,000 due from special funds of the United Nations results from costs incurred by the Department as a result of participation in the United Nations peacekeeping operations in the Congo until 1964 and in the Middle East until 1967. The unsettled accounts in respect of these operations total $804,000 and $4,702,000 respectively. Difficulties encountered by the United Nations in the collection of contributions from certain member states have continued to preclude settlement of these accounts.

The amount of $1,319,000 owing to Canada with respect to costs incurred by the Department in serving on the International Commissions for Supervision and Control in Cambodia, Laos and Viet-Nam is referred to in paragraph 244 of this Report.

The balance of $797,000 reported as due in respect of Assistance to Provinces comprises amounts receivable from five provinces for assistance provided in civil emergencies between 1958 and 1969. (See paragraph 109 of this Report.) The total is understated by $19,000, as the Department has not recorded as receivable an account rendered in 1968.

The amount of $680,000 owing by the Federal Republic of Germany results from the transfer to that country in 1961 of responsibility for certain NATO projects originally paid for by Canada. The Department had taken no follow-up action in recent years with respect to this long-outstanding account which was to have been settled in 1962. When we again brought the item to the attention of the Department in September 1971, it referred the matter to the Department of External Affairs for follow-up through the Canadian Delegation to the North Atlantic Council.

The account owing by the Canadian Corporation for the 1967 World Exhibition, covering shortages in, and damages to, bedding, and transportation and administration costs, was referred to on page 41 of our 1969 Report. Following the dissolution

of the Corporation on November 27, 1969 its assets and liabilities were transferred to the Minister of Industry, Trade and Commerce for collection and settlement in accordance with the Expo Winding-up Act, *1969-70, c.1.* Settlement of the amount owing to the Department of National Defence will not be possible until the Province of Quebec pays an amount of $192,000 representing the unpaid portion of the Province's share of the Corporation's deficit.

Included in the total accounts receivable shown for this Department in the Statement of Accounts Receivable in the Public Accounts are receivables of approximately $235,000 owing by other government departments. These interdepartmental accounts have been incorrectly classified as receivable from outsiders. In accordance with general departmental instructions the total of these accounts was determined as at March 31, 1971 without taking into account payments in April 1971. To the extent that other departments charged payments on these accounts in April to 1970-71 appropriations, these interdepartmental receivables are overstated.

The Department has reported the outstanding debit balances in pay accounts of former service members at March 31, 1971 to be $38,000. However, our review of the relevant records has indicated the correct balance for this category of account to be $84,000; the difference arose in part from the absence of control accounts. (See paragraph 99 of this Report.) In addition to these omissions, other categories of accounts totalling approximately $355,000 have not been included by the Department in the total of its accounts receivable.

It has not been the practice to report debit balances in pay accounts of serving members of the Canadian Forces. The Central Computational Pay System continued to be in a developmental posture at March 31, 1971 (see paragraph 107 of this Report), and statistics at that date showed that Pay System balances differed from unit record balances in 76% of the pay accounts. When these problems are overcome, overpayments of pay and allowances and other debit balances can be included in the Statement of Accounts Receivable.

248. *Accounts receivable—Department of National Health and Welfare.* Reference was made in our 1970 Report (paragraph 216) to examinations of the records of four of the Department's fourteen hospitals which disclosed that considerable improvement was required in both the control and collection of accounts receivable. During the year, examinations at three other departmental hospitals disclosed a similar situation. At each of the hospitals the accounts receivable did not agree with the general ledger control account. Postings to the control account at one hospital were six months in arrears while at another the control account had not been balanced with the individual accounts receivable trial balance for eleven months. At one hospital billings for services to patients were often considerably delayed, sometimes for periods of more than a year, and collection action on outstanding accounts

receivable was weak, there being no apparent organized system of follow-up on overdue accounts.

249. *Accounts receivable—Department of Transport.* The accounts receivable reported by this Department amounted to $5,980,000 at March 31, 1971, compared with $7,658,000 at March 31, 1970.

In our 1970 Report (paragraph 218) we stated that the accounts receivable had not been kept efficiently and that a number of procedural weaknesses had been noted. We reported that the impact of revised procedures prepared by the Department and issued in 1969 and 1970 was yet to be felt. While some improvement in the handling of accounts receivable has been noted, our review of the accounts outstanding as at March 31, 1971 disclosed omissions in their compilation, lengthy delays in processing accounts, an absence of controlling accounts and inadequate collection efforts. (See paragraphs 191, 192 and 194 of this Report.)

250. *Cash on deposit.* Included in the item "Cash" is an amount of $1,254.9 million on deposit in bank accounts. Of this amount, $1,152.1 million was on deposit in the chartered banks in Canada, $81.1 million in the Bank of Canada and $21.7 million in banks in London, New York, Paris, Brussels and Bonn.

The balances on deposit in bank accounts abroad are working balances against which cheques are drawn and which do not earn interest. The Bank of Canada, in accordance with the provisions of section 19(e) of the Bank of Canada Act, *R.S., c. B-2,* does not pay interest on deposits. However, profits of the Bank of Canada are paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

Balances on deposit in the chartered banks in Canada earn interest only on the amounts by which the aggregate of the lowest daily balance for each bank in each week exceeds $100 million, calculated at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%. (See paragraph 77 of this Report.)

251. *Valuation of United States dollar assets and liabilities.* On May 31, 1970, the Minister of Finance announced that Canada would no longer maintain the value of the Canadian dollar within the previously agreed margins and, subsequently, the Canadian dollar appreciated in value. Thus United States dollar assets held by Canada and debts payable by Canada in United States dollars all depreciated in value in terms of the Canadian dollar. The rate of exchange at March 31, 1971 was $1 US = $1.008125 Canadian but, except in the case of bank balances of $17.2 million, no adjustment was made in the valuation of these assets and liabilities with the result that there was a net over-valuation at that date as follows:

	Recorded value	Value at March 31, 1971 exchange rate	Over-valuation
Assets—			
Securities held for securities investment account	$ 12,939,000	$ 12,124,000	$ 815,000
Subscriptions to the International Monetary Fund and other international organizations	1,417,322,000	1,370,361,000	46,961,000
Investments in United States dollar securities	25,754,000	24,124,000	1,630,000
	1,456,015,000	1,406,609,000	49,406,000
Liabilities—			
Loans payable in foreign currencies, including accrued interest	343,147,000	320,567,000	22,580,000
	$ 1,112,868,000	$ 1,086,042,000	$ 26,826,000

The Investments in United States dollar securities have matured since the year-end and a loss of $1,697,000 has been recorded in the 1971-72 accounts with respect to them.

252. *Departmental working capital advances.* This item, amounting to $215,551,000 at March 31, 1971, comprises a number of revolving funds and working capital advances established by Appropriation Acts and other statutes.

In the following instances balances at March 31, 1971 include: capital expenditures, which under the policy referred to in paragraph 239 should not be included as assets in the Statement of Assets and Liabilities; operating deficits, inventory shortages, and undistributed expense to be recovered from departmental appropriations, which are not assets; and long-term stockpiles of materials which should be shown as a separate category in the Statement of Assets and Liabilities and should not be financed out of working capital advances:

CAPITAL EXPENDITURES	
Department of Supply and Services—	
Computer Services Bureau Revolving Fund	$ 154,000
Canadian Government Supply Service Revolving Fund	4,000
National Film Board Operating Account	137,000
Public Archives—Central Microfilm Unit Revolving Fund	90,000
	385,000
OPERATING DEFICITS	
Department of Supply and Services—	
Computer Services Bureau Revolving Fund	369,000
Department of Fisheries and Forestry—	
Fisheries Prices Support Account	18,000
	387,000
INVENTORY SHORTAGES	
Department of Indian Affairs and Northern Development—	
National Parks Stores Account	19,000
Post Office Revolving Fund	4,000
	23,000

UNDISTRIBUTED EXPENSE	
(amounts due from departments)	
Department of Supply and Services—	
Canadian Government Printing Bureau:	
Revolving Fund	$ 2,535,000
Printing of publications	136,000
Canadian Government Supply Service Revolving Fund	1,616,000
Computer Services Bureau Revolving Fund	338,000
Department of Communications—	
Government Telephone Account	497,000
National Film Board Operating Account	238,000
Department of Public Works—	
Working Capital Advance	69,000
	5,429,000
LONG-TERM STOCKPILES OF MATERIALS	
Department of Energy, Mines and Resources—	
Uranium concentrates	101,183,000
Department of Supply and Services—	
Defence Production Revolving Fund	929,000
	102,112,000
	$ 108,336,000

253. *Departmental working capital advances—Department of Finance—Bullion and coinage accounts.* These accounts totalling $11,982,000, include gold bullion in the amount of $7,929,000 which is over-valued by $439,000. The over-valuation represents costs that should have been charged against the revenue from bullion and coinage operations in the year.

254. *Foreign exchange reserve accounts—Exchange Fund Account—Deficit.* Advances to the Exchange Fund Account at March 31, 1971 amounted to $4,578,424,-000 comprising cash advances, $4,325,000,000, and special drawing rights, $253,424,-000. However, as the market value of the net investments from cash advances held by the Account at that date was only $4,077,772,000 there was a deficit of $247,228,-000 which in our opinion should be written off with parliamentary approval as a cost of exchange management. (See paragraphs 79 and 353 of this Report.)

255. *Foreign exchange reserve accounts—Exchange Fund Account—Special Drawing Rights.* Advances to the Exchange Fund Account include special drawing rights of the International Monetary Fund which are recorded in the accounts of Canada at $253,424,000. A corresponding liability appears in the accounts. These special drawing rights were first issued in January 1970 to countries participating in the Special Drawing Account established under the Articles of Agreement of the International Monetary Fund, as a supplement to existing foreign exchange reserves. Canada's initial allotment of US$124,320,000 was recorded in the accounts of Canada at the official exchange rate of $1 US = $1.08108 Canadian, which amounted to $134,400,000. On January 1, 1971, additional special drawing rights allotted to Canada in the amount of US$117,700,000 were recorded at the exchange rate on December 31, 1970 of $1 US = $1.01125 Canadian, which amounted to $119,024,000.

These special drawing rights form part of Canada's foreign exchange reserves and their value should have been shown in the Statement of Assets and Liabilities at March 31, 1971 at the then exchange rate of $1 US = $1.008125 Canadian. Their value was thus overstated both as an asset and as a liability by $9,437,000.

256. *Advances, loans and investments—Domestic—Loans to, and investments in, Crown corporations—Atomic Energy of Canada Limited.* Included in the loans to, and investments in, Atomic Energy of Canada Limited totalling $504 million are the following loans exclusive of accrued interest, relating to construction of nuclear power stations at:

Pickering, Ont.	$ 86,400,000
Gentilly, Que.	77,000,000
Douglas Point, Ont.	69,945,000

The Company's portion of the cost of the Pickering nuclear power station is expected to be recovered from the Hydro-Electric Power Commission of Ontario but this is dependent on the success achieved in the operation of the station.

After the Gentilly nuclear power station has been established to be a safe and dependable source of power, it is to be sold to Quebec Hydro-Electric Commission at a price calculated to make the estimated future cost of energy produced equal to that from a fossil-fired conventional thermal generating station. Whether the sale price will be sufficient to permit the Company to repay the loans remains to be determined. The station is not yet on an operational basis.

Originally the Douglas Point nuclear power station, which had been constructed earlier, was to be sold to the Hydro-Electric Power Commission of Ontario under an arrangement similar to that for the Gentilly station. However, the role of the Douglas Point station in the next few years is to be altered in that, in addition to producing electricity for the Hydro-Electric Power Commission of Ontario, it is to produce steam for the Bruce heavy water plant. Thus, although the contract with the Commission for the sale of the plant is still in effect, it is not known when, if ever, the sale is to take place or when the loans will be repaid. The station earned revenue of $5.3 million in 1970-71 from the sale of electricity but incurred an operating loss of $3.1 million exclusive of depreciation. If anticipated reductions in future operating costs and increased revenue from the sale of steam are achieved, any excess of revenue over operating costs is to be applied as repayment of the loans.

257. *Advances, loans and investments—Domestic—Loans to, and investments in, Crown corporations—National Harbours Board.* Loans to the National Harbours Board which are included in the Statement of Assets and Liabilities of Canada amounted to $270,239,000 at March 31, 1971 and are identified with the individual harbours and bridges as follows:

Montreal—		
Harbour	$ 142,465,000	
Champlain Bridge	52,177,000	
Jacques Cartier Bridge	7,576,000	
	202,218,000	
Vancouver	47,974,000	
Saint John Harbour Bridge Authority	15,196,000	
Halifax—Pier C	2,500,000	
Belledune	2,351,000	
	$ 270,239,000	

In addition to the loans included in the Statement of Assets and Liabilities are loans totalling $139,901,000 which have been written off to net debt. These loans were made with respect to the following:

Quebec	$ 52,075,000
Saint John	34,770,000
Halifax	29,891,000
Churchill	8,857,000
Montreal—Jacques Cartier Bridge	6,490,000
Trois-Rivières	3,988,000
Chicoutimi	3,830,000
	$ 139,901,000

In addition to the principal amounts of these loans which total $410,140,000, interest unpaid to December 31, 1970 amounted to $151,583,000.

Interest on the loans is payable semi-annually at rates varying from 2 3/4% to 8 1/2% but, although there are certificates of indebtedness, no dates for repayment of principal are specified except in the case of two loans made in 1970. It appears that repayment of the principal is dependent on the individual harbours making profits after payment of interest.

Loans of $4,580,000 were made to the Board during the year and repayments totalling $37,000 were made by the Board with respect to the Saint John Harbour Bridge Authority. Interest totalling $16,658,000 became due, and interest payments of $4,171,000 were made by the Board with respect to the Belledune, Trois-Rivières and Vancouver Harbours, the Champlain Bridge and the Saint John Harbour Bridge Authority.

In previous Reports we have observed that there was little prospect of the Board being able to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In February 1967 the Public Accounts Committee, in its Twelfth Report 1966-67, commented as follows (see Appendix 1, item 24):

> The Committee is concerned that there appears to be little prospect of the Board being in a position to meet its principal and interest obligations and recommends that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter will be dealt with by the Department of Finance and the Board within the next twelve months.

The financial structure of the Board was not reconstituted as the proposals made by the Department of Finance were not acceptable to the Board. The matter has since been left in abeyance. On May 13, 1971 the Public Accounts Committee discussed the matter with officers of the Board and the Canadian Marine Transportation Administration but no further recommendation has been made by the Committee.

258. *Advances, loans and investments—Domestic—Loans to, and investments in, Crown corporations—The St. Lawrence Seaway Authority.* The Authority was established by the St. Lawrence Seaway Authority Act, *R.S., c. S-1*, to construct, maintain and operate the Canadian section of the deep waterway between the Port of Montreal and Lake Erie, comprising the Montreal—Lake Ontario Section and the Welland Canal. Outstanding loans to the Authority at March 31, 1971 totalled $534,550,000 and unpaid interest, $84,093,000.

Included in these amounts are loans in respect of construction of the Montreal—Lake Ontario Section which amounted to $337,900,000 and unpaid interest of $73,510,000. Section 17 of the Act requires that the tolls provide a revenue sufficient to defray the cost of operations including interest and repayment of the capital indebtedness over a period not exceeding fifty years. The original terms of these loans called for the payment of interest only in the first three full years of operation and thereafter payment of annual amounts sufficient to amortize all loans and interest thereon over a period of forty-seven years ending December 31, 2009. These terms have subsequently been amended and now provide that these loans, together with interest, are to be repaid in such amounts each year as the cumulative net profits of the Section, before amortization of the loan principal, will permit. Unpaid interest bears interest until paid and the statutory requirement that the principal and interest are to be fully paid by December 31, 2009 remains.

Officers of the Authority have calculated that the annual toll revenue required by the Authority, if it is to meet the statutory requirement that its indebtedness be amortized over a period not exceeding fifty years, would be $32.5 million based on 1970 costs. The actual toll revenue in 1970 was $19 million. Since the opening of the Seaway in 1959 no repayment of principal has been made, and interest totalling $74 million remains unpaid.

Loans made for capital improvements to the Welland Canal aggregated $194,-150,000 of which $72,500,000 is interest-free. The remainder, $121,650,000, which has been loaned since September 22, 1966, bears interest which is accrued in the accounts but is not to be paid until December 31 of the year in which the Minister of Transport determines that each modernization project is completed, at which time the terms of principal repayment for the loans are to be determined by the Governor in Council. Accrued interest to March 31, 1971 amounted to $10,583,000. In recent years the Welland Canal has had an annual operating deficit in excess of $7 million before providing for interest or payment of the loans.

It is extremely unlikely that the Authority will be able to repay its capital indebtedness.

259. *Advances, loans and investments—Domestic—Loans to provincial governments—Loans to assist in the creation of employment.* Finance Vote L13c, Appropriation Act No. 1, 1971, *1970-71-72, c.25,* provided $160 million for loans to provinces, provincial agencies and municipalities in the 1970-71 and 1971-72 fiscal years, for the purpose of assisting in the creation of employment. The appropriation stipulates that the loans be secured by obligations of the borrowers, bear interest at the rate applicable to loans made by the Canada Pension Plan Investment Fund, and that the terms of maturity be 20 years or such lesser period as may be fixed by the Minister of Finance. The amount allocated to each province is also set out in the Vote.

At March 31, 1971 the only province to obtain a loan under the program was Quebec which had borrowed $12 million out of its allocation of $70.3 million. The loan is secured by debentures maturing in 20 years which provide for payment of interest annually.

260. *Advances, loans and investments—Domestic—Miscellaneous—Loans to manufacturers re defence plant modernization.* Industry, Trade and Commerce Vote 5 provides funds each year in the product innovation activity of its Trade - Industrial Program to pay half the cost of new equipment to assist Canadian defence industry with plant modernization. Similarly, Industry, Trade and Commerce Vote L10, Appropriation Act No. 3, 1970, *1969-70, c.46,* and corresponding votes in prior years have provided loan funds to meet half the cost of new equipment. Both expenditures and loans are subject to the approval of the Treasury Board.

The Department acquires title to the equipment for which assistance is being given by arranging to purchase it from the manufacturer being assisted or by having its original purchase made by him acting as an agent for the Department. When payment is made by the Department, 50% of the price is charged to Vote 5 and 50% to Vote L10. The Department then sells the machinery to the manufacturer being assisted at 50% of its cost payable over five years without interest with title passing on payment of the final instalment.

The outstanding balance of advances from loan votes at March 31, 1971 was $20,768,000 as compared with $18,341,000 at March 31, 1970. The increase of $2,427,000 results from advances during the year of $6,663,000 and repayments of $4,236,000.

The $20,768,000 outstanding at the year-end included twelve accounts totalling $1,082,000 on which payments of $221,000 were in arrears, and one account for $105,000 where the equipment had been repossessed and placed in government storage. Under terms of the agreement the debt was extinguished upon repossession; consequently, the amount is incorrectly classified as a loan receivable.

261. *Advances, loans and investments—Domestic—Miscellaneous—Investment in shares of Panarctic Oils Ltd.* In 1967 Canada joined a consortium of 20 participants, including leading Canadian oil and mining companies, for an oil exploration program in the Arctic islands. Panarctic Oils Ltd. was incorporated for the purpose and Canada agreed to purchase sufficient shares of capital stock in the Company to maintain a 45% equity. (See paragraph 226 of our 1970 Report.)

During the year Canada's subscription to shares in the Company increased to $22,556,000 of which $20,284,000 had been called and paid.

Effective February 15, 1971 Canada's representation on the Board of Directors was increased from two to four members, the total number of directors thereby rising to 16. Canada may appoint additional directors in proportion to its equity if and when it desires to do so.

Financial statements of the Company show exploration costs of $34,550,000 to December 31, 1970, including drilling expense of $21,838,000.

262. *Advances, loans and investments—Domestic—Miscellaneous—Hydro Quebec Research Institute.* In July 1970, the Government of Canada entered into an agreement with the Government of Quebec and the Quebec Hydro-Electric Commission to provide financial assistance for the construction and operation of the Hydro Quebec Research Institute. Under the terms of the agreement Canada will lend to Hydro Quebec a maximum of $17,500,000 over the four years ending in 1973-74. The loans, to bear interest at the same rates charged for loans to federal Crown corporations, are to be repaid in 25 equal annual instalments comprising capital and interest, the first repayment being due March 31, 1975, or one year following the date of the final loan, whichever comes first. During 1970-71 loans totalling $10,900,000 were made to Hydro Quebec at an interest rate of 7 3/16% under authority of Energy, Mines and Resources Votes L10, Appropriation Act No. 3, 1970, *1969-70, c.46,* and L10a, Appropriation Act No. 4, 1970, *1970-71-72, c.4.*

263. *Advances, loans and investments—Domestic—Miscellaneous—Investment in shares of Telesat Canada.* Telesat Canada was incorporated by the Telesat Canada Act, *R.S., c. T-4,* to establish satellite telecommunication systems providing, on a commercial basis, telecommunication services within Canada. In compliance with section 10(2) of the Act, the Board of Directors, with the approval of the Governor in Council, determined that 6,000,001 common shares (without nominal or par value) of the capital stock of the Company should be issued as fully paid and non-assessable shares at any time prior to March 31, 1972 for a consideration of $10 per share.

In accordance with section 38 of the Act the Minister of Finance with the approval of the Governor in Council acquired for Canada 1,000,000 shares for $10,000,000. According to section 40 of the Act the aggregate amount that the Government of Canada and corporations declared by statute to be agents of Her

Majesty may at any time have invested in the Company shall not exceed $30,000,000.

The Company's fiscal year ends on December 31 and copies of its financial statements and auditor's report are required by section 37 of the Telesat Canada Act to be laid before Parliament by the Minister of Communications. A firm of chartered accountants appointed by the shareholders is the auditor of the Company.

264. *Advances, loans and investments—Domestic—Miscellaneous—Indian Economic Development Account.* Indian Affairs and Northern Development Vote L53b, Appropriation Act No. 1, 1970, *1969-70, c.24,* authorized, for the purposes of economic development of Indians, the making of loans in the current and subsequent fiscal years to Indians, groups of Indians or Indian bands, or to individuals, partnerships or corporations, the activities of which contribute or may contribute to such development. The governing regulations make provision for financial assistance, without the approval of the Treasury Board, in the form of direct loans, repayment of which is required within 15 years, and loan guarantees, provided all amounts outstanding with respect to any one borrower do not exceed $500,000.

The authority also provided for the charging to the Account of the principal owing on March 31, 1970 on loans made pursuant to section 70 of the Indian Act, *R.S., c. I-6.* The amount so charged was $4,154,000. Included were 59 accounts amounting to $16,400 which were subsequently written off under the authority of section 18 of the Financial Administration Act.

The balance of the Account at March 31, 1971, $6,167,000, represented 1,236 loans including 263 new loans made during the year with outstanding balances of $2,381,000 at that date.

265. *Advances, loans and investments—Domestic—Miscellaneous—Dominion Coal Company Limited.* In previous Reports (paragraph 229 in 1970) we have drawn attention to arrears of principal and interest on loans made under the provisions of the Coal Production Assistance Act, *1949, c.29,* administered by the Dominion Coal Board. On May 1, 1970 the Act was repealed and the Dominion Coal Board dissolved. The loans are now administered by the Department of Energy, Mines and Resources.

Particular reference was made to loans totalling $7,261,000 made to the Dominion Coal Company Limited in the period November 1950 to July 1963. These loans have been in default since December 31, 1964 and the principal still owing amounts to $4,522,000. Interest in default at March 31, 1971 amounted to $625,000.

The Cape Breton Development Corporation, a Crown corporation, took over certain of the Company's properties and operations in 1968 but the cost of acquisition has not yet been agreed on. We understand that the principal and interest in default are to form part of the final settlement. (See paragraph 74 of this Report.)

266. *Advances, loans and investments—Domestic—Miscellaneous—Saint John Harbour Bridge Authority.* In July 1966, with the approval of the Governor in Council, Canada entered into an agreement with the Province of New Brunswick, the City of Saint John and the Saint John Harbour Bridge Authority for the financing, construction and operation of a toll bridge across the harbour at Saint John, N.B.

Subsequently, under authority of Vote L106b, Appropriation Act No. 7, 1967, *1967-68, c.8,* Canada advanced $15,250,000 to the National Harbours Board to enable it to purchase debentures issued by the Authority to finance the cost of constructing the bridge. Additional loans of $3,800,000 were made direct to the Authority through the Municipal Development and Loan Board, of which $950,000 has been forgiven pursuant to the Municipal Development and Loan Act, *1963, c.13.* These loans bear interest at rates between 5 1/4% and 8 1/2% and are repayable over a period of 50 years.

It was anticipated that in the initial years the cost of operation would exceed the revenue from tolls and accordingly Vote L101e, Appropriation Act No. 4, 1966, *1966-67, c.6,* provided a total of $10 million for advances to the Authority in each fiscal year, based on the difference for the year between the operating and financing costs of the toll bridge and the actual revenue of the Authority, as determined pursuant to the agreement. These advances are repayable when the actual revenue of the Authority for a fiscal year exceeds the amount of the operating and financing costs for such year. At March 31, 1971 a total of $3,051,000 had been advanced to the Authority to cover the excess of operating and financing costs over revenue. Interest, at rates from 5 7/8% to 8 1/2%, is charged on portions of these advances.

Altogether Canada has advanced a total of $22,101,000 to the Authority of which $124,000 has been repaid, and $950,000 has been forgiven by the Municipal Development and Loan Board, leaving a total owing to Canada at March 31, 1971 of $21,027,000 plus deferred interest of $8,000. The three loans making up this total have been recorded under three separate headings in the schedules to the Statement of Assets and Liabilities of Canada, as follows:

Advances, loans and investments—Domestic—	
Loans to, and investments in, Crown corporations:	
National Harbours Board	$ 15,196,000
Municipal Development and Loan Board—Advances	2,780,000
Miscellaneous:	
Department of Finance—	
Advances	3,051,000
Deferred interest	8,000
	3,059,000
	$ 21,035,000

The excess of the operating and financing costs of the Authority over its revenue is due solely to the requirement that there be annual payments of principal and interest on loans from Canada. These payments which totalled $3,517,000,

comprising interest of $3,393,000 and principal of $124,000, were financed to the extent of $466,000 from Authority revenue. The balance of $3,051,000 was advanced by the Department of Finance to enable the Authority to meet interest and principal repayments on the two other government loans. These two loans thus appear to be revenue-producing assets whereas in fact they are not, and a parliamentary appropriation of funds is necessary to permit the recording of interest and principal payments.

267. *Advances, loans and investments—Domestic—Miscellaneous—Loans to ground-fish processors.* Fisheries and Forestry Vote L32b, Appropriation Act No. 1, 1969, *1968-69, c.23,* authorized loans to assist processors of ground-fish in Canada, who are unable to obtain sufficient financing on reasonable terms from other sources, to maintain raw fish prices at the 1966-68 level. The loans are available in an amount not exceeding the total of deficiency payments received by the processor from the Fisheries Prices Support Board in 1968. No repayment of the principal amount of the loan is required for five years and payment of the interest may also be deferred for a like period. At the end of that time the loan becomes payable in accordance with terms agreed upon when it was made, within a maximum repayment period of ten years.

During the year two loans amounting to $360,000 were made at 8 3/4% interest and one loan of $1,600 was repaid. There were 41 loans totalling $3,575,000 outstanding at March 31, 1971.

268. *Advances, loans and investments—Domestic—Miscellaneous—Emergency loans to fishermen.* Fisheries and Forestry Vote L6a, Appropriation Act No. 4, 1970 *1970-71-72, c.4,* provided $1,834,000 for:

> Loans to commercial fishermen and fish plant workers in accordance with agreements with the provinces, for the purpose of income maintenance during the 1970-71 fishing season because of closure of the fishery due to mercury pollution.

Under this authority a total of $1,296,000 was paid to four provinces as follows:

	Number of loans	Amount
Manitoba	1,038	$ 952,000
Ontario	125	193,000
Quebec	190	142,000
Saskatchewan	63	9,000
	1,416	$ 1,296,000

The arrangements were that the provinces would administer the program and Canada would pay one-half of the amount of the loans made and share equally the net amounts recovered. The agreement with the Province of Manitoba also provided for assignment to the Province of an eligible participant's right to sue the party allegedly responsible for the pollution, while Quebec and Saskatchewan agreed to ensure that legal steps would be taken against polluters when and if such action were feasible.

In our opinion, the amounts disbursed during the year are not loans to fishermen but are payments to provinces of 50% of the provinces' disbursements under an assistance program. As such, the amounts should have been charged to expenditure rather than being set up as current assets on the Statement of Assets and Liabilities.

We also question that Vote L6a provides authority for the payments as made because:

1. The "loans" were made by the Provinces to fishermen and fish plant workers and the Federal Government holds no acknowledgment from the ultimate recipients.
2. The agreements make no reference to interest on the "loans" or to repayment dates.
3. The recipients of the "loans" are not expected to repay them. Recovery is to be by the Provinces by means of action against polluters.

These "loans" do not meet the criteria of being readily realizable or revenue-producing which, according to an explanatory statement appearing in the introduction to the Public Accounts, are followed in the preparation of the Statement of Assets and Liabilities. (See paragraph 239 of this Report.)

269. *Advances, loans and investments—External—Loans to national governments—Special assistance loans to developing countries.* Since 1964-65 Appropriation Acts have authorized a total of $633 million in special loan assistance to developing countries and agreements to lend have been entered into with 35 countries, three regional development banks and one group of three countries. At March 31, 1971, $287,700,000 had been disbursed to 34 signatories under these loan agreements, an increase of $113,944,000 in the year. Fifteen countries had received two or more loans. The loan disbursements may be classified as follows:

	March 31, 1971	March 31, 1970
Repayable over 40 years, following a grace period of 10 years from the date of execution of each agreement—		
Interest-free—66 loans	$ 228,359,000	$ 124,862,000
Interest at $\frac{3}{4}$ of 1% per annum, on the amount of the loans committed less repayments—28 loans	39,429,000	36,380,000
Repayable over 30 years, following a grace period of 10 years—		
Interest-free—1 loan	978,000	878,000
Repayable over 30 years, following a grace period of 5 years—		
Interest at $\frac{3}{4}$ of 1% per annum, on the amount of the loan committed less repayments—1 loan	3,240,000	3,240,000
Repayable over 23 years, following a grace period of 7 years—		
Interest at 3% per annum—19 loans	12,094,000	4,972,000
Repayable over 20 years, following a grace period of 5 years—		
Interest at 6% per annum—1 loan	3,424,000	3,424,000
Interest-free advance to the Asian Development Bank repayable "if and when Canada decides to withdraw its advances or if and when the Bank (or Special Fund) ceases operations"	176,000	—
	$ 287,700,000	$ 173,756,000

270. *Deposit and trust accounts—Other—Public Officers Guarantee Account.* The Public Officers Guarantee Account, established by section 98 of the Financial Administration Act, provides that payments may be made from the Account by way of indemnity for losses suffered by Her Majesty or others by reason of defalcations or other fraudulent acts or omissions of public officers. On January 19, 1967 the Treasury Board directed that unless losses due to defalcations can be recovered in the fiscal year in which they occur, the Board's authority to reimburse the losses from the Account is to be sought before the year-end.

Two losses totalling $1,136 were charged to the Account during the year. The first was a $919 loss which had occurred in 1968-69 and the second was a $217 loss which occurred during the year. With respect to a $901 loss noted during the year, the Department of Indian Affairs and Northern Development on March 29, 1971 requested Treasury Board approval for its transfer to the Account, but it was June 3, 1971 before this approval was forthcoming and the transfer was made in 1971-72. Despite the long-standing Treasury Board directive referred to above, the following departments had failed to initiate the transfer to the Account of 15 losses totalling $12,879 at March 31, 1971 (see paragraph 211 of this Report):

	Losses discovered in			
	1970–71		Prior years	
Department	Number	Amount	Number	Amount
External Affairs		$	1	$ 384
Indian Affairs and Northern Development			1	308
Justice			1	100
Labour			2	1,624
National Defence	2	1,562	4	1,127
National Revenue—Customs and Excise	2	74	1	6,536
Transport	1	1,164		
	5	$ 2,800	10	$ 10,079

271. *Annuity, insurance and pension accounts—Canadian Forces Superannuation Account.* Section 27 of the Canadian Forces Superannuation Act, *R.S., c. C-9,* requires that at least once in every five years an actuarial report on the state of the Canadian Forces Superannuation Account be laid before Parliament. The latest valuation of the Account was at December 31, 1965. We understand that an actuarial valuation as at December 31, 1970 will be completed early in 1973.

272. *Annuity, insurance and pension accounts—Royal Canadian Mounted Police Superannuation Account.* Section 25 of the Royal Canadian Mounted Police Superannuation Act, *R.S., c. R-11,* requires that at least once in every five years an actuarial report on the state of the Force's Superannuation Account be laid before Parliament. The latest valuation of the Account was at December 31, 1964 and, in

paragraph 232 of our 1970 Report, we stated that an actuarial valuation at December 31, 1969 was being made. This valuation has not yet been completed.

273. *Annuity, insurance and pension accounts—Social security accounts—Unemployment Insurance Fund.* The amount of $25,056,000 shown as the liability with respect to the Unemployment Insurance Fund represents only the cash portion of the Fund which was on deposit with the Receiver General at March 31, 1971. At that date the Fund amounted to $323,637,000 and the liability was understated by $298,581,000 because the other assets, including $315 million of non-negotiable Canada bonds, and liabilities of the Fund were not included in the Statement of Assets and Liabilities.

274. *Undisbursed balances of appropriations to special accounts—Other—Centennial of Confederation Fund.* This Fund, established by the Centennial of Canadian Confederation Act, *1960-61, c.60,* to promote interest in, and to plan and implement programs and projects relating to, the Centennial of Confederation in Canada, had a balance of $848,000 at April 1, 1970. During the year $47,000 granted to a province for approved projects was charged to the Fund, leaving a balance of $801,000 at March 31, 1971. Although it had been expected that the balance would not be required, an additional claim of $7,900 has since been received.

275. *Unmatured debt.* Included in the unmatured debt, amounting to $25,201 million at March 31, 1971, are the following treasury bills and bonds totalling $5,274 million which mature within the ensuing fiscal year:

Treasury bills due within—	
three months	$ 2,145,000,000
six months	1,115,000,000
364 days	475,000,000
	3,735,000,000
Loan of 1967 due April 1, 1971	225,000,000
Loan of 1968 due April 1, 1971	200,000,000
Loan of 1964 due June 1, 1971	350,000,000
Loan of 1970 due June 1, 1971	75,000,000
Loan of 1968 due October 1, 1971	200,000,000
Loan of 1969 due October 1, 1971	170,000,000
Canada Savings Bonds, 1961, due November 1, 1971	33,667,000
Loan of 1967 due December 15, 1971	285,000,000
	1,538,667,000
	$ 5,273,667,000

Although debt falling due within one year is normally regarded as a current liability, no portion of this unmatured debt, $2,995 million of which falls due within the first three months of the ensuing year, has been included with the "Current and demand liabilities" in the Statement of Assets and Liabilities at March 31, 1971.

Crown Corporations

276. A Crown corporation, as defined by section 66(1) of the Financial Administration Act, is a corporation that is ultimately accountable, through a Minister, to Parliament for the conduct of its affairs. Departmental corporations are named in Schedule B to the Act and are responsible for administrative, supervisory or regulatory services of a governmental nature. Agency corporations are named in Schedule C and are responsible for the management of trading or service operations on a quasi-commercial basis or for the management of procurement, construction or disposal activities on behalf of the Crown. Proprietary corporations are named in Schedule D and are responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

277. The following paragraphs are concerned with agency and proprietary corporations to which sections 67 to 78 of the Act apply and certain other Crown corporations which have not been named in any of the Schedules to the Act.

278. Section 75 of the Act requires each corporation to prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus, containing such information as, in the case of a company incorporated under the Canada Corporations Act, *R.S., c. C-32,* is required to be laid before the company by the directors at an annual meeting.

279. Section 77 of the Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation and to state in his report whether in his opinion:

(a) proper books of account have been kept by the corporation;

(b) the financial statements of the corporation

(i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,

(ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and

(iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and

(c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation.

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

280. Section 77 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 75 directs that such annual report be submitted to the appropriate Minister within three months after the termination of each financial year and that it be laid before Parliament by the Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

281. The Auditor General is auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1971:

Corporation	Reporting Minister
Atomic Energy of Canada Limited....	Energy, Mines and Resources
Canada Deposit Insurance Corporation	Finance
Canadian Arsenals Limited..........	Supply and Services
Canadian Broadcasting Corporation...	Secretary of State
Canadian Commercial Corporation....	Supply and Services
Canadian Dairy Commission.........	Agriculture
Canadian Film Development Corporation..........................	Secretary of State
Canadian Livestock Feed Board......	Agriculture
Canadian National (West Indies) Steamships, Limited..............	Transport
Canadian Overseas Telecommunication Corporation......................	Communications
Canadian Patents and Development Limited.........................	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
Canadian Saltfish Corporation........	Fisheries
The Company of Young Canadians....	Secretary of State
Crown Assets Disposal Corporation....	Supply and Services
Defence Construction (1951) Limited..	National Defence
Eldorado Aviation Limited...........	Energy, Mines and Resources
Eldorado Nuclear Limited............	Energy, Mines and Resources
Export Development Corporation.....	Industry, Trade and Commerce
Farm Credit Corporation.............	Agriculture
Freshwater Fish Marketing Corporation	Fisheries
The National Battlefields Commission.	Indian Affairs and Northern Development
National Capital Commission.........	Minister of State for Urban Affairs
National Harbours Board............	Transport
Northern Canada Power Commission..	Indian Affairs and Northern Development
Northern Transportation Company Limited and subsidiary company....	Transport

Corporation	Reporting Minister
Polymer Corporation Limited and subsidiary companies	Supply and Services
Royal Canadian Mint	Supply and Services
St. Clair River Broadcasting Limited	Secretary of State
The St. Lawrence Seaway Authority	Transport
The Seaway International Bridge Corporation, Ltd	Transport

282. The Centennial Commission ceased to exist on April 1, 1968 and the Secretary of State was authorized to close out the affairs of the Commission. Financial statements covering the transactions of the Secretary of State concerning the affairs of the Commission for the year ended March 31, 1971 have been reported on and are referred to in paragraph 297 of this Report.

283. Since the Auditor General has not been appointed the auditor or the joint auditor of the following Crown corporations and public instrumentalities, their accounts were not examined by him during the year:

Corporation or Instrumentality	Reporting Minister
Air Canada	Transport
Bank of Canada	Finance
Canadian National Railways	Transport
The Canadian National Railways Securities Trust	Transport
The Canadian Wheat Board	Hon. Otto E. Lang
Cape Breton Development Corporation	Regional Economic Expansion
Central Mortgage and Housing Corporation	Hon. Robert Knight Andras
Industrial Development Bank	Finance

284. The paragraphs that follow deal with the various corporations audited by the Auditor General. In each case an introductory comment describes briefly the origin of the corporation and the nature of its activity followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the year in comparison with the preceding year, and any other matter which might be of interest to the House of Commons.

285. *Atomic Energy of Canada Limited.* This Company was incorporated in 1952 under the Canada Corporations Act, *R.S., c. C-32,* pursuant to authority contained in the Atomic Energy Control Act, *R.S., c. A-19,* to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office is in Ottawa. The Commercial Products Division of the Company has offices and a manufacturing plant at South March, Ont., and a

laboratory in Ottawa. Nuclear generating stations are located at Rolphton, Ont., and Douglas Point, Ont., and are under construction on cost-sharing bases at Gentilly, Que., and Pickering, Ont. Nuclear reactors and research and development laboratories are maintained at Chalk River, Ont., and at the Whiteshell establishment in Manitoba. The Bruce heavy water plant and an auxiliary steam supply plant are under construction at Douglas Point, Ont. Shopping centres, housing, staff hotels, and hospitals at Deep River, Ont., and Pinawa, Man., were constructed for the employees of the Chalk River and Whiteshell establishments. A Power Projects group, located at Sheridan Park, Ont., and Peterborough, Ont., is responsible for the engineering, development, construction and management of nuclear power generating projects. Radioisotopes produced in the Company's reactors, and equipment designed and built by the Company to use these radioisotopes, are marketed throughout the world. Under specific parliamentary authority, a transmission line in connection with the Nelson River hydro-electric power project is being erected by the Company in accordance with an agreement between Canada and the Province of Manitoba.

The Crown's equity in the Company at March 31, 1971, and at March 31, 1970, comprised:

	March 31, 1971	March 31, 1970
Loans and accumulated interest for—		
Nelson River transmission line	$ 151,089,000	$ 93,304,000
Pickering nuclear power station	98,544,000	64,676,000
Gentilly nuclear power station	85,528,000	63,549,000
Bruce heavy water plant	79,963,000	25,850,000
Douglas Point nuclear power station	77,596,000	77,596,000
Housing projects and commercial buildings	18,946,000	18,026,000
Bruce auxiliary steam plant	12,392,000	—
Heavy water inventory	10,000,000	10,000,000
	534,058,000	*353,001,000*
Capital stock	15,000,000	15,000,000
Retained earnings	1,594,000	2,519,000
	$ 550,652,000	$ 370,520,000

Not recorded as equity of the Crown is the cost of the Company's research facilities, $232,062,000, which has been charged to parliamentary appropriations and to retained earnings.

The Nelson River transmission line which will extend from Kettle Rapids to Winnipeg, a distance of 556 miles, is under construction at a cost estimated at $194 million and is scheduled for completion in 1974. The Company will retain ownership of the line and will lease it to Manitoba Hydro at rates sufficient to retire the loans from Canada with interest over a period of fifty years.

The Company's portion of the cost of the Pickering nuclear power station is expected to be recovered from the Hydro-Electric Power Commission of Ontario but this is dependent on the success achieved in the operation of the station.

After the Gentilly nuclear power station has been established as a safe and dependable source of power, it is to be sold to the Quebec Hydro-Electric Commission at a price calculated to make the estimated future cost of energy produced equal to that from a fossil-fired conventional thermal generating station. Whether the sale price will be sufficient to permit the Company to repay the loans remains to be determined. The station is not yet on an operational basis.

The loans from Canada with respect to the Bruce heavy water plant and the Bruce auxiliary steam plant are to be retired from revenue obtained from the sale of heavy water.

Originally the Douglas Point nuclear power station, which had been constructed earlier, was to be sold to the Hydro-Electric Power Commission of Ontario under an arrangement similar to that for the Gentilly station. However, the role of the Douglas Point station in the next few years is to be altered in that, in addition to producing electricity for the Hydro-Electric Power Commission of Ontario, it is to produce steam for the Bruce heavy water plant. Thus, although the contract with the Commission for the sale of the plant is still in effect, it is not known when, if ever, the sale is to take place or when the loans will be repaid. The station earned revenue of $5.3 million in 1970-71 from the sale of electricity but incurred an operating loss of $3.1 million exclusive of depreciation. If anticipated reductions in future operating costs and increased revenue from the sale of steam are achieved, any excess of revenue over operating costs is to be applied as repayment of the loans.

The loans from Canada with respect to housing projects and commercial buildings are being repaid in accordance with established schedules.

A comparative summary of income and expense of the Company for the past two years follows:

	Year ended March 31	
	1971	1970
Research program—		
Operating expense	$ 86,622,000	$ 78,492,000
Gross income from engineering services, housing accommodation, hospitals, sales of steam, etc.	20,594,000	17,196,000
Excess of expense over income	$ 66,028,000	$ 61,296,000

	Year ended March 31 1971	1970
Portion of excess of expense over income provided for by Energy, Mines and Resources Vote 40 (Vote 65 in 1969–70)	$ 63,869,000	$ 61,296,000
Less: Amount refundable	58,000	—
	63,811,000	61,296,000
Portion of excess of expense over income not provided for—to be recovered from a future parliamentary appropriation	2,217,000	—
	$ 66,028,000	$ 61,296,000
Capital expenditure provided for by:		
Energy, Mines and Resources Vote 45 (Vote 70 in 1969–70)	$ 5,131,000	$ 7,704,000
Retained earnings	1,382,000	1,023,000
	$ 6,513,000	$ 8,727,000
Commercial operations—		
Income	$ 10,039,000	$ 11,244,000
Expense:		
Cost of sales	6,234,000	6,362,000
Research and development, selling and administration	4,234,000	4,846,000
	10,468,000	11,208,000
Excess of expense over income	$ 429,000	$ (36,000)

The increase of $8,130,000 in the operating expense of the research program was due mainly to: increases in salaries, wages and employee benefits, $2,382,000; the cost of heavy water technology, $2,217,000, for which there was no counterpart in the previous year; and increases in the cost of materials and supplies, $2,034,000.

The increase of $3,398,000 in gross income from engineering services, housing accommodation, hospitals, sales of steam, etc., was due mainly to a further increase in the sale of engineering services by the Power Projects group.

The reduction in the income and expense of the commercial operations was due mainly to a reduction in sales of medical products.

286. *Canada Deposit Insurance Corporation.* This Corporation was established by the Canada Deposit Insurance Corporation Act, *R.S., c. C-3,* to provide deposit insurance for the benefit of persons having deposits with federally incorporated institutions and those provincially incorporated institutions with which the Corporation enters into contracts, and to accumulate, manage and invest a Deposit Insurance Fund and any other funds accumulated as a result of its operations. The head office is in Ottawa.

The Corporation is administered by a Board of Directors consisting of the Chairman, appointed by the Governor in Council, and the incumbents of the offices

of the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Insurance and the Inspector General of Banks. There were 73 member institutions whose customers' Canadian currency deposits, to a maximum of $20,000, were insured by the Corporation. These member institutions comprised 10 banks, 20 federally and 7 provincially incorporated trust and loan companies supervised by the federal Superintendent of Insurance, and 36 other provincially incorporated trust and loan companies.

Sections 21 and 22 of the Act require that the affairs of member institutions be examined at least once in each year. The banks were examined and reported on by the Inspector General of Banks and the trust and loan companies by the Superintendent of Insurance.

Deposits insured by the Corporation, based on returns made by member institutions during 1970, totalled $24.5 billion comprising deposits of $22.1 billion in federal institutions and $2.4 billion in provincial institutions.

The Crown's equity in the Corporation at December 31, 1970 was $21,602,000 comprising capital stock, $10,000,000, loans, $8,500,000, and accumulated net earnings, $3,102,000.

The balance of the Deposit Insurance Fund at December 31, 1970 was $27,936,000 including $8,176,000 of premiums assessed members in respect of the premium year ending April 30, 1971.

A comparative summary of income and expense for the past two years follows:

	Year ended December 31	
	1970	1969
Income—		
Interest on investments	$ 1,567,000	$ 1,370,000
Interest on loans to member institutions	1,722,000	1,111,000
	3,289,000	2,481,000
Expense—		
Interest on advances from Canada	1,101,000	804,000
Inspection fees and expenses	73,000	90,000
Salaries and employee benefits	66,000	67,000
Other	84,000	70,000
	1,324,000	1,031,000
Excess of income over expense	$ 1,965,000	$ 1,450,000

Although the accumulated net earnings of $3,102,000 at December 31, 1970 were sufficient to meet the amount of a dividend, which the Corporation may declare under section 36 of the Act, no dividend was declared.

The Corporation has been designated a proprietary corporation and as such is subject to income tax. However, Order in Council P.C. 1968-10/585 of March 28, 1968

remitted, under section 17 of the Financial Administration Act, any income tax payable by the Corporation.

287. *Canadian Arsenals Limited.* This Company, with its head office in Ottawa, was incorporated under the Canada Corporations Act, *R.S., c. C-32,* pursuant to authority contained in the Department of Reconstruction Act, 1944, *1944-45, c.18.* The main objects of the Company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment.

At March 31, 1971 the Crown's equity in the Company consisted of a working capital advance of $4,500,000.

During the year the Company was the custodian of and operated two Crown-owned plants which cost $33 million. The operating results for the past two years are shown in the following summary:

	Year ended March 31	
	1971	1970
Income—		
Sales	$ 4,895,000	$ 7,655,000
Miscellaneous	360,000	377,000
	5,255,000	8,032,000
Expense—		
Cost of sales	6,391,000	7,922,000
Administration	335,000	343,000
	6,726,000	8,265,000
Excess of expense over income provided for by Supply and Services Vote 15 (Vote 30 in 1969–70)	$ 1,471,000	$ 233,000

The decrease in sales and cost of sales was due to a lower volume of business with customers in the private sector.

Unfilled sales orders at March 31, 1971 amounted to approximately $4.3 million as compared to $6.7 million at the end of the previous year.

288. *Canadian Broadcasting Corporation.* This Corporation was established in 1936 and, under the Broadcasting Act, *R.S., c. B-11,* operates national television and radio broadcasting services and an international shortwave service. The head office is in Ottawa and regional offices are located in St. John's, Halifax, Quebec, Montreal, Ottawa, Toronto, Windsor, Winnipeg, Edmonton and Vancouver.

Capital expenditure during the year amounted to $30,335,000 which was financed with surplus funds of $12,933,000 remaining from parliamentary appropriations for the Corporation's operating expenses in the past two years, working capital of $12,005,000, proceeds from the sale of capital assets, $97,000, and additional loans of $5,300,000. This capital expenditure is classified as consolidation of facilities,

$21,394,000, improvements to coverage, $3,515,000, and additions and replacements, $5,426,000. The accumulated cost of capital assets, $215,860,000, is financed to the extent of $111,005,000 by loans from Canada which bear interest varying from 5¼% to 8½% and are each repayable in 20 equal annual instalments (see paragraph 55 of this Report).

Included in capital expenditure is $55,575,000 expended during the past twelve years in connection with the planned consolidation of facilities in Moncton, Montreal, Ottawa, Toronto and Vancouver. The Corporation's estimate at March 31, 1971 of the future cost of consolidation of facilities was $103,300,000 of which, subject to the provision of funds by Parliament for the purpose, approximately $18,000,000 will be expended during the year ending March 31, 1972 and $85,300,000 in subsequent years.

At March 31, 1971 the Crown's equity in the Corporation was $137,812,000 represented by the net book value of capital assets, $132,586,000, working capital, $2,995,000, investment in a subsidiary, $1,600,000, and deferred charges, $631,000.

A summary of the source and application of the Corporation's funds in 1970-71 follows:

Source—	
Parliamentary appropriations:	
Operating grant	$ 166,000,000
Loans for capital expenditure	5,300,000
	171,300,000
Advertising revenue	45,061,000
Depreciation and amortization	11,034,000
Miscellaneous—including proceeds from sale of assets	2,502,000
Recovery of prior year's expenditure	962,000
Decrease in working capital	23,915,000
	$ 254,774,000
Application—	
Total operating expense	$ 218,139,000
Additions to capital assets	30,335,000
Repayment of capital loans	6,300,000
	$ 254,774,000

The following is a summary of the net cost of operations for the past two years:

	Year ended March 31	
	1971	1970
Expense—		
Cost of production and distribution:		
Programs	$ 135,040,000	$ 128,072,000
Network distribution	17,819,000	16,722,000
Station transmission	11,162,000	10,842,000
Payments to private stations	5,148,000	5,725,000
Commissions to agencies and networks	5,056,000	5,383,000
	174,225,000	*166,744,000*

	Year ended March 31 1971	1970
Operational supervision and services	$ 17,812,000	$ 16,840,000
External services	4,401,000	4,326,000
Emergency broadcasting	204,000	418,000
	196,642,000	188,328,000
Selling and general administration	14,062,000	13,637,000
Interest on loans to finance the acquisition of capital assets	7,435,000	6,068,000
	218,139,000	208,033,000
Income—		
Advertising revenue, etc	47,466,000	48,909,000
Net cost of operations	$ 170,673,000	$ 159,124,000

The major items contributing to the increase in expense were salaries and wages, $6,183,000, other employment expense, $412,000, and performers' fees, authors', composers' and other rights, $1,205,000. The increase in salaries and wages was due to salary increases and increased expenditures for casual wages, vacation relief, and retiring allowances brought about through reductions in permanent staff. Personnel on strength at March 31, 1971, including temporary and part-time staff, was 9,117 compared with 9,098 at the previous year-end.

Expenditures incurred in connection with future programs are recorded as current assets of the Corporation until such time as the programs are broadcast. These assets were as follows:

	March 31, 1971	March 31, 1970
Programs completed and in process of production	$ 7,753,000	$ 6,904,000
Film and script rights	2,705,000	3,371,000
	$ 10,458,000	$ 10,275,000

These amounts are after giving effect to the following write-offs of expenditure incurred in connection with programs which proved to be unsuitable because of technical difficulties, scheduling changes, pre-emptions, inferior quality, expiry of right, etc.:

	1970–71	1969–70
Programs completed and in process of production	$ 808,000	$ 291,000
Film rights	177,000	115,000
Script rights	92,000	76,000
	$ 1,077,000	$ 482,000

On June 29, 1970 the Corporation, with the approval of the Governor in Council, acquired St. Clair River Broadcasting Limited (St. Clair) and on July 24, 1970 invested $1.6 million in that Company. On the same date St. Clair entered into a partnership agreement with a private company to purchase, with retroactive effect from March 1, 1970, Windsor television station CKLW at a price of US$5 million. St. Clair has a one-quarter interest in the partnership.

The operations of St. Clair from date of acquisition to March 31, 1971 resulted in a loss of $854,000 which included $784,000 as its share of the $3,135,000 operating loss of the television station for the thirteen months ended March 31, 1971. (See paragraph 70 of this Report.)

The equity of the Corporation in St. Clair was therefore reduced from $1,600,000 at March 1, 1970 to $746,000 by March 31, 1971. No provision for this loss was made in the accounts of the Corporation at that date but attention was drawn to it in a note appended to its financial statements. It should be noted that unless the losses experienced to date by the partnership are offset by subsequent profits the Corporation, through its subsidiary St. Clair, will have to absorb the full loss of $3,135,000 because of the requirement that on or before May 31, 1975 St. Clair purchase its partner's share at cost, $3,750,000, plus accrued interest and its partner's share of any accrued profits to date of sale.

289. *Canadian Commercial Corporation.* This Corporation was established in 1946 by the Canadian Commercial Corporation Act, *R.S., c. C-6*, to provide procurement services in Canada for the governments of other countries and for international organizations. Its head office is in Ottawa. During the year the Corporation's purchases on behalf of its customers totalled $180 million compared with $266 million in the preceding year.

The Crown's equity in the Corporation at March 31, 1971 was $14,885,000, consisting of a $10,000,000 working capital advance, $5,500,000 in interest-bearing loans, and a $163,000 reserve for contingencies, less a loss of $778,000 on the valuation of US dollar holdings at March 31, 1971.

A comparative summary of the Corporation's operations for the past two years follows:

	Year ended March 31	
	1971	1970
Expense—		
Estimated cost of administrative services	$ 5,140,000	$ 4,911,000
Income—		
Interest earned on:		
Investments	422,000	459,000
Special progress payments to suppliers	95,000	157,000

	Year ended March 31	
	1971	1970
	$ 517,000	$ 616,000
Less: Interest on loans from Canada	327,000	327,000
	190,000	289,000
Net cost of operations	$ 4,950,000	$ 4,622,000
Net cost of operations provided for by—		
Supply and Services Vote 20 (Vote 40 in 1969–70)	$ 3,675,000	$ 3,422,000
Government departments which provided major services without charge	1,275,000	1,200,000
	$ 4,950,000	$ 4,622,000

In 1967 the Corporation entered into an agreement with the Netherlands to supply 105 aircraft at a ceiling price notwithstanding the fact that the aircraft manufacturer was not committed to a firm or ceiling delivery price. Based on experience with similar aircraft produced for the Department of National Defence by the same manufacturer, it appears that costs could exceed the ceiling price. A footnote to the Balance Sheet as at March 31, 1971 draws attention to an agreement with a foreign government (the Netherlands) that carries with it certain risks which will likely result in a loss to the Corporation.

290. *Canadian Dairy Commission.* This Commission, established by the Canadian Dairy Commission Act, *R.S., c. C-7*, consists of a chairman and two members appointed by the Governor in Council. Its head office is in Ottawa. The objects of the Commission are to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

In carrying out its functions the Commission pays subsidies, under a quota system, direct to producers of manufacturing milk and cream on their deliveries to processing plants, and supports the domestic prices of butter, skim milk powder and cheese, by offering to purchase any surpluses at prescribed prices. Holdbacks from subsidy payments and, since December 1, 1970, levies received from Ontario and Quebec milk marketing boards on the market price paid to producers (in lieu of holdbacks) are applied against losses on export sales at world market prices. (See paragraph 71 of this Report.)

The financial transactions of the Commission, other than those relating to administrative expense, are recorded in the Canadian Dairy Commission Account established in the Consolidated Revenue Fund pursuant to section 15 of the Act. The purchase of dairy products to support market prices was financed by means of loans from the Minister of Finance.

Loans to the Commission including accrued interest amounted to $24,220,000 at March 31, 1971. The Crown's equity was $25,705,000 represented by cash on deposit with the Receiver General, $19,734,000, accounts receivable, $3,744,000, inventories of butter and skim milk powder, at the lower of cost or market value, $24,936,000, less subsidies and other accounts payable, $22,709,000.

The following is a summary of the operations of the Commission for the past two years:

		Year ended March 31	
		1971	1970
Dairy price support program—			
Subsidies (gross) to producers of manufacturing milk and cream (net after holdbacks, $78,074,000; 1969–70—$82,626,000)		$ 102,835,000	$ 107,450,000
Subsidies on disposal of surplus dairy products:			
Skim milk powder	$ 20,938,000		31,471,000
Cheese	5,303,000		3,245,000
Butter	905,000		12,500,000
Evaporated milk and dry whole milk	168,000		198,000
Skim milk diverted to production of casein rather than milk powder	2,385,000		3,265,000
	29,699,000		50,679,000
Deduct:			
Holdbacks from producer subsidies	24,761,000		24,824,000
Levies from provincial milk marketing boards with respect to market quotas	4,065,000		—
	28,826,000		24,824,000
		873,000	25,855,000
Net cost of marketing operations		8,061,000	8,968,000
Cost of products damaged or lost in storage, less salvage value		126,000	—
Research and information expense		38,000	5,000
Cost of program		111,933,000	142,278,000
Administrative expense		904,000	847,000
Total expenditure		$ 112,837,000	$ 143,125,000
Total expenditure provided for by—			
Agricultural Stabilization Board for the purpose of stabilizing the price of dairy products—Agriculture Vote 15 (Vote 17 in 1969–70)		$ 125,000,000	$ 131,857,000
Agriculture Vote 30 (Vote 55 in 1969–70)—Administrative expense		453,000	397,000
Government departments which provided certain major services without charge		451,000	450,000
		125,904,000	132,704,000
Balance of funds provided by Agricultural Stabilization Board not required for current year's operations applied against previous years' deficits		13,067,000	(10,421,000)
		$ 112,837,000	$ 143,125,000

The following is a summary by commodities of the net cost of marketing operations to stabilize domestic prices, together with totals for the previous year:

	Butter	Skim milk powder	Cheese	Year ended March 31 1971	Year ended March 31 1970
Sales	$ 51,181,000	$ 21,359,000	$ 2,324,000	$ 74,864,000	$ 57,520,000
Subsidies applicable to surplus products sold	1,048,000	14,470,000	—	15,518,000	37,594,000
	52,229,000	35,829,000	2,324,000	90,382,000	95,114,000
Cost of products sold	51,841,000	35,637,000	2,214,000	89,692,000	94,692,000
Gross profit	388,000	192,000	110,000	690,000	422,000
Expense—					
Storage	1,940,000	757,000	21,000	2,718,000	3,167,000
Freight and handling	1,146,000	674,000	4,000	1,824,000	1,545,000
	3,086,000	*1,431,000*	*25,000*	*4,542,000*	*4,712,000*
Loss (profit)	$ 2,698,000	$ 1,239,000	$ (85,000)	3,852,000	4,290,000
Interest on loans				4,209,000	4,765,000
				8,061,000	9,055,000
Profit on sales of imported butter				—	87,000
Net cost of marketing operations				$ 8,061,000	$ 8,968,000

Subsidies applicable to surplus products sold represent the difference between the Canadian support price and the world market price realized on sale of the products abroad.

The cost of products damaged or lost in storage, $126,000, represents the net loss resulting from the collapse of a warehouse roof under a heavy snow load, $81,000, a warehouse fire, $30,000, and the failure of a warehouse to deliver stocks of butter when required and the firm's subsequent bankruptcy, $15,000. In accordance with the Government's policy of underwriting its own risks, the Commission does not insure the commodities it places in warehouses against fire or other losses. The amount of this loss is not shown in the statement of such losses which appears on page 11.21 of Volume I of the Public Accounts.

At March 31, 1970 the Commission had an accumulated deficit of $25,386,000 including a provision of $19,443,000 for the loss expected to be incurred on the sale at world market prices of the inventories of butter and skim milk powder considered to be surplus to domestic requirements at that date. The loss actually incurred in 1970-71 was only $5,639,000 due partly to an unexpected decrease in butter production, which had to be made good from Commission stocks, and an increase late in the year in the world price for skim milk powder. Reversal of the portion of the provision for the loss which was not required, $13,804,000, and the funds, $13,067,000, provided by the Agricultural Stabilization Board in excess of the cost of the dairy

support program for the year ended March 31, 1971 served to eliminate the Commission's deficit, and there was a surplus of $1,485,000 at the year-end.

A summary of the administrative expense for the past two years follows:

	Year ended March 31	
	1971	1970
Remuneration of Members of the Commission	$ 79,000	$ 73,000
Employee salaries and benefits	282,000	216,000
Data processing service	386,000	383,000
Cheque issue services	65,000	67,000
Miscellaneous	92,000	108,000
	$ 904,000	$ 847,000

The administrative expense of $904,000 includes $451,000 for the estimated value of services provided without charge by the Department of Agriculture and the Department of Supply and Services. We reiterate the recommendation made in previous Reports (paragraph 252 in 1970) that provision for the cost of these services be made in the Canadian Dairy Commission vote for administration, so that the total cost of administering the dairy price support program will be assembled in one vote.

291. *Canadian Film Development Corporation.* This Corporation, established by the Canadian Film Development Corporation Act, *R.S., c. C-8,* consists of six members appointed by the Governor in Council, and the person holding the office of Government Film Commissioner. Its objects are to foster and promote the development of a feature film industry in Canada, for which the Act appropriated $10 million to be paid out of the Consolidated Revenue Fund from time to time as required. The head office is in Montreal.

Payments from the appropriation since the Corporation commenced operations on April 1, 1968 to March 31, 1971 totalled $4,720,000 of which $2,319,000 was paid in 1970-71 comprising $1,321,000 for investment in Canadian feature film productions and $998,000 for operating purposes. The balance available in the appropriation at March 31, 1971 was therefore $5,280,000. At that date the Corporation was committed to invest a further $469,000 in future Canadian feature film productions.

Amounts advanced for investments in, or loans to producers of, Canadian feature film productions are paid from the statutory appropriation and charged to the Canadian Film Development Advance Account. Amounts recovered, together with interest earnings and profits, are credited to the Account and are available for

reinvestment. A summary of the amounts advanced and interest earnings and profits for the past two years follows:

	Year ended March 31	
	1971	1970
Balance at beginning of year	$ 1,787,000	$ 366,000
Withdrawn from statutory appropriation and invested	1,321,000	1,399,000
Income from investments—		
Profits realized	108,000	—
Interest earned	5,000	22,000
Balance at end of year	$ 3,221,000	$ 1,787,000
Represented by—		
Investments	$ 3,189,000	$ 1,744,000
Accruals	32,000	26,000
Cash uninvested	—	17,000
	$ 3,221,000	$ 1,787,000

The Crown's equity in the Corporation at March 31, 1971 was $3,244,000 comprising amounts invested in Canadian feature film productions, $3,189,000, working capital, $39,000, and furniture and fixtures, $16,000.

The following is a summary of the expense of the Corporation for the past two years:

	Year ended March 31	
	1971	1970
Administration—		
Salaries of Members and executive officers	$ 49,000	$ 40,000
Other salaries and employee benefits	63,000	49,000
Advisory fees	38,000	21,000
Rent, leasehold improvements and taxes	27,000	23,000
Cannes Festival 1970	18,000	—
Staff and Members' travel	18,000	12,000
Printing, postage and general office expenses	14,000	13,000
Accounting and legal fees	7,000	11,000
Other	10,000	7,000
	244,000	*176,000*
Investments and loans written off	172,000	124,000
Grants to film makers and film technicians resident in Canada	68,000	115,000
Depreciation	6,000	5,000
Provision for doubtful investments	500,000	—
Total expense	$ 990,000	$ 420,000
Total expense provided for by—		
Statutory appropriation	$ 998,000	$ 429,000
Less: Expenditure on furniture, fixtures and other assets	6,000	15,000
	992,000	414,000
Increase in accounts payable—operating	(8,000)	1,000
Depreciation	6,000	5,000
	$ 990,000	$ 420,000

The increase in administrative expense results from continuing expansion of the Corporation's activities in its third year of operation.

The investments and loans written off comprise $115,000 invested in preproduction costs of 15 films which are unlikely to go into production and $57,000 invested in production costs of two films for which no significant bookings have been received.

The provision for doubtful investments is in respect of investments in preproduction costs of three films and production costs of six films.

292. *Canadian Livestock Feed Board.* This Board, established by the Livestock Feed Assistance Act, *R.S., c. L-9,* consists of four members appointed by the Governor in Council. The headquarters of the Board is in Montreal. The objects of the Board are to ensure the availability of feed grain to meet the needs of livestock feeders, the availability of adequate storage space in Eastern Canada for feed grain, and the maintenance of reasonable stability in, and fair equalization of, feed grain prices in Eastern Canada and British Columbia.

The following is a summary of the expenditure of the Board in the past two years:

	Year ended March 31	
	1971	1970
Freight assistance on feed grains	$ 20,443,000	$ 21,860,000
Administration—		
Salaries and employee benefits	213,000	217,000
Accounting and cheque issue services	78,000	64,000
Travel and removal	26,000	30,000
Accommodation	24,000	23,000
Professional and special services	24,000	23,000
Telephone, telegraph and postage	13,000	8,000
Stationery, office supplies and equipment	12,000	23,000
Other	14,000	15,000
	404,000	403,000
Total expenditure	$ 20,847,000	$ 22,263,000
Total expenditure provided for by—		
Agriculture Vote 40 (Vote 65 in 1969–70)	$ 20,443,000	$ 21,860,000
Agriculture Vote 35 (Vote 60 in 1969–70)	330,000	302,000
Treasury Board—Reserve for salary revisions	—	10,000
Government departments which provided certain major services without charge	74,000	91,000
	$ 20,847,000	$ 22,263,000

The freight assistance on feed grains does not take into account claims totalling $859,000, including $146,000 for claims received after the accounts had been closed, which could not be paid due to insufficient funds in Agriculture Vote 40 for 1970-71.

A note to the financial statement draws attention to these claims which arose from a greater than anticipated demand for feed grain eligible for transportation assistance in the last quarter of the fiscal year 1970-71 and were charged to the corresponding appropriation for 1971-72.

During the year the Board concluded arrangements to take over from the Department of Supply and Services the pre-audit of assistance claims. The employees involved were taken on strength by the Board on October 1, 1970, and the Department was paid $28,000 for salary costs incurred to that date. This amount together with $50,000 for the cost of services provided without charge by the Department in 1970-71 makes up this year's charge for accounting and cheque issue services. The salary costs of these employees for the last six months of the year are included in salaries and employee benefits. However, these costs were mainly offset by there being no counterpart in the year for the retroactive pay adjustments of the previous year.

In addition to the accounting and cheque issue services provided without charge by the Department of Supply and Services, the Department of Public Works provided accommodation valued at $24,000. It is the general policy that Crown corporations pay for these services and provision should be made for these costs in the Board's appropriation for administration and operation expense.

293. *Canadian National (West Indies) Steamships, Limited.* The operations of this Company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests.

The Crown's equity in the Company at December 31, 1970 was $556,000 represented by cash, $5,000, a deposit with the Receiver General, $95,000, and a final instalment of $470,000 receivable under an agreement of sale, less a liability of $14,000 in respect of unclaimed matured bonds.

The balance receivable under the agreement of sale represents the final instalment due August 19, 1963 under the terms of a letter of credit confirmed by the Bank of America. Payment continues to be prohibited by the Cuban Assets Control Regulations of the United States of America dated July 8, 1963. Efforts of the Department of Finance during the year to obtain a licence from the Secretary of the Treasury of the United States to enable the Bank of America to make payment notwithstanding these Regulations were unsuccessful. However, the Bank of America has agreed to an extension to December 31, 1972 of the limitation period under which legal action may be taken against it.

294. *Canadian Overseas Telecommunication Corporation.* This Corporation was constituted in 1949 by the Canadian Overseas Telecommunication Corporation Act, *R.S., c. C-11,* to establish, maintain and operate external telecommunication services generally and to co-ordinate Canada's external telecommunication services with those of other nations. The head office is in Montreal.

The Crown's equity in the Corporation was $82,641,000 at March 31, 1971, comprising advances of $42,315,000 and a surplus of $40,326,000.

The capital requirements of the Corporation during the year were met from accumulated earnings and $3,604,000 was repaid on advances received in prior years. Additions to capital assets amounted to $11,592,000 and at March 31, 1971 the estimated cost of completing approved capital projects was $66,500,000 of which $21,500,000 relates to the year ending March 31, 1972.

The following is a summary of income and expense of the Corporation for the past two years:

	Year ended March 31	
	1971	1970
Income—		
Telegraph, telephone, telex, circuit rentals, satellite, etc.	$ 33,582,000	$ 33,155,000
Expense—		
Salaries, wages and employee benefits	8,188,000	7,304,000
Depreciation	6,427,000	7,255,000
Rental of circuits, etc.	5,995,000	4,210,000
Maintenance and repairs—plant and equipment	3,160,000	2,495,000
Interest	2,277,000	2,458,000
Other	1,147,000	880,000
	27,194,000	24,602,000
Less:		
Estimated amount recoverable from Commonwealth Network	3,400,000	3,275,000
Portion of expense capitalized	1,221,000	774,000
	4,621,000	*4,049,000*
	22,573,000	20,553,000
Profit before income tax	11,009,000	12,602,000
Provision for income tax	5,654,000	6,470,000
Net income	$ 5,355,000	$ 6,132,000

The increase of $884,000 in salaries, wages and employee benefits was mainly due to increased salary rates. The decrease of $828,000 in depreciation resulted from a portion of the capital assets becoming fully depreciated in the previous year. The increase of $1,785,000 for rentals of circuits, etc., comprised $1,600,000 for the rental of additional circuits and $185,000 for the increased costs of landline connections between Montreal and Mill Village, N.S. The increase of $665,000 in maintenance and repairs—plant and equipment was mainly due to higher charter-hire costs of the icebreaker/cable repair ship *John Cabot*.

295. *Canadian Patents and Development Limited.* This Company was incorporated in 1947 under the Canada Corporations Act, *R.S., c. C-32,* pursuant to section 17 of the National Research Council Act, *R.S., c. N-14.* The Company which is located in Ottawa makes available to industry the inventions developed by the Council, government departments, agencies, universities and other publicly supported institutions through licensing arrangements and development agreements.

At March 31, 1971 the Crown's equity in the Company was $839,000, comprising capital stock of $296,000 and surplus of $543,000.

The following is a summary of the results of the Company's operations for the past two years:

	Year ended March 31	
	1971	1970
Income—		
Royalties, licensing fees, etc.	$ 481,000	$ 451,000
Less: Portion payable to third parties	150,000	144,000
	331,000	307,000
Other	100,000	106,000
	431,000	413,000
Expense—		
Salaries	277,000	250,000
Patent attorneys' fees and other patenting costs	128,000	102,000
Rent	47,000	47,000
Development assistance	42,000	72,000
Promotion	17,000	20,000
Services provided by National Research Council of Canada	10,000	16,000
Other	25,000	21,000
	546,000	528,000
Excess of expense over income	$ 115,000	$ 115,000

The increase of $27,000 in salaries is mainly attributable to salary increases including retroactive payments. The $26,000 increase in patent attorneys' fees and other patenting costs resulted from an increase in patents filed in other countries. The decrease of $30,000 in development assistance was mainly due to a continuing reduction of the development program.

Paragraph 73 of this Report refers to royalties not reported to the Company by a foreign licensee.

296. *Canadian Saltfish Corporation.* This Corporation, established by the Saltfish Act, *R.S. (1st Supp.), c.37*, consists of a Board of Directors composed of a chairman, a president, one director for each participating province and not more than five other directors, each of whom is appointed by the Governor in Council to hold office for a term not exceeding five years. A director for a participating province is appointed on the recommendation of the Lieutenant Governor in Council of that province. The head office of the Corporation is in St. John's, Nfld. The Corporation was constituted to improve the earnings of primary producers of cured saltfish by curing fish (of the cod family) and trading in and marketing cured fish and the by-products of fish curing.

Canada had no equity in the Corporation at March 31, 1971.

The following is a summary of the income and expense of the Corporation for the year ended March 31, 1971, its first year of operations:

Sales		$ 6,840,000
Cost of sales		6,080,000
		760,000
Expense—		
Salaries and employee benefits	$ 132,000	
Interest	66,000	
Rent	32,000	
Travel	17,000	
Other	58,000	
	305,000	
Less: Government grant provided under section 16 of the Act	100,000	
		205,000
Excess of income over expense to be distributed to fishermen		$ 555,000

297. *Centennial Commission.* The Centennial Commission was established by the Centennial of Canadian Confederation Act, *1960-61, c.60*, to promote interest in, and to plan and implement programs and projects relating to, the Centennial of Confederation in Canada. The Commission consisted of a commissioner, an associate commissioner and twelve directors, all appointed by the Governor in Council. Pursuant to Secretary of State Vote 1c, Appropriation Act No. 1, 1968, *1967-68, c.34*, the Commission ceased to exist on April 1, 1968; all rights and property, and all obligations and liabilities of the Commission existing before that day were directed to continue as the rights, property, obligations and liabilities of the Crown; and the Secretary of State was authorized to close out the affairs of the Commission.

The Centennial of Confederation Fund, established under section 10 of the Act, had a balance of $848,000 at April 1, 1970. During the year $47,000 granted to a province for approved projects was charged to the Fund, leaving a balance of $801,000 at March 31, 1971. There were no commitments outstanding against this Fund at March 31, 1971, therefore it was expected that the balance in the Fund would not be required. However, an additional claim of $7,900 has since been received.

The following is a summary of expenditure for the year ended March 31, 1971 towards closing out the affairs of the Centennial Commission, with comparable figures for the year ended March 31, 1970 and cumulative figures from the establishment of the Commission on September 29, 1961:

	Year ended March 31		Cumulative to March 31,
	1971	1970	1971
Grants to provinces for approved projects of a lasting nature	$ 47,000	$ 1,536,000	$ 41,434,000
Programs and projects of national significance	—	17,000	37,843,000
Administrative expense	1,000	—	12,958,000
Total expenditure	$ 48,000	$ 1,553,000	$ 92,235,000

	Year ended March 31 1971	1970	Cumulative to March 31, 1971
Total expenditure provided for by—			
Centennial of Confederation Fund	$ 47,000	$ 1,536,000	$ 41,434,000
Parliamentary appropriations	1,000	17,000	50,285,000
Government departments which provided accommodation and accounting services without charge	—	—	516,000
	$ 48,000	$ 1,553,000	$ 92,235,000

298. *The Company of Young Canadians.* The Company was established by the Company of Young Canadians Act, *R.S., c. C-26*, to support, encourage and develop programs for social, economic and community development in Canada through voluntary service. The Company is under the administration of a Council consisting of not less than seven and not more than nine members appointed by the Governor in Council pursuant to the Act. The head office is in Ottawa.

A summary of the Company's income and expense for the past two years follows:

	Year ended March 31 1971	1970
Income—		
Payment received pursuant to Secretary of State Vote 70 (Vote 48 in 1969–70)	$ 1,900,000	$ 1,900,000
Interest	39,000	44,000
	1,939,000	1,944,000
Expense—		
Volunteers' allowances and benefits	498,000	731,000
Staff salaries and benefits	429,000	458,000
Transportation and travel	102,000	150,000
Program support—including office expense	83,000	119,000
Services provided by individuals and firms	59,000	119,000
Recruitment, training and conferences	34,000	47,000
Communications	28,000	55,000
Purchase of motor vehicles, furniture and equipment	3,000	26,000
	1,236,000	1,705,000
Excess of income over expense	$ 703,000	$ 239,000

At April 1, 1971 the Company had an accumulated surplus of $838,000 available for expenditure on approved projects in addition to the funds to be provided by parliamentary appropriation.

In our Report for 1970 (paragraph 259) we noted the findings of the Standing Committee on Broadcasting, Films and Assistance to the Arts, which had investigated the Company and reported to the House on December 5, 1969. The Committee, among other things, expressed concern over the lack of administrative procedures

and financial controls. By March 31, 1970 administrative procedures had been corrected but shortcomings in the financial controls still existed. During 1970-71, however, satisfactory financial controls were established, including the appointment of a budget administrator and installation of a budgetary system.

299. *Crown Assets Disposal Corporation.* This Corporation was established in 1944 by the Surplus Crown Assets Act, *R.S., c. S-20.* With certain specified exceptions, the Corporation is responsible for the disposal of the surplus assets of government departments, Crown corporations and agencies. The Corporation has entered into agreements with Britain and the United States whereby it also disposes of surplus property held by them in Canada. The Corporation has its head office in Ottawa and regional sales offices in a number of cities across Canada.

The Corporation was authorized for the 1970-71 year to retain 5% of the net proceeds of sales of lands and buildings, including interest received, and 10% of the net proceeds of all other sales, to meet its administrative and other expenses. A summary of the Corporation's income and expense for the year with comparable figures for the preceding year follows:

	Year ended March 31	
	1971	1970
Income—		
Portion retainable by the Corporation from net sales and other income earned on behalf of Canada and others	$ 1,754,000	$ 1,193,000
Expense—		
Salaries and employee benefits	1,001,000	1,050,000
Rent	76,000	70,000
Communications	61,000	57,000
Printing, stationery and office supplies	33,000	27,000
Travel	30,000	22,000
Office furniture, equipment, repairs and upkeep	27,000	18,000
Data processing	15,000	15,000
Other	20,000	12,000
	1,263,000	1,271,000
Excess of income over expense	$ 491,000	$ (78,000)

The $561,000 increase in income was mainly due to larger sales of surplus defence property and equipment and an increase from 4% to 5% in the Corporation's fee on sales of real estate. The decrease of $49,000 in salaries and employee benefits resulted from there being no counterpart during the year for the retroactive salary payments in the preceding year.

Pursuant to section 71(4) of the Financial Administration Act, the Corporation was directed to pay to the Receiver General, as of March 31, 1970 and from time to time thereafter, but at intervals of not longer than six months, all of its surplus in excess of $300,000. Consequently, $213,000 has been paid to the Receiver General, leaving the surplus at the authorized limit.

The equity of the Crown in the Corporation's Agency Account at March 31, 1971 was $12,580,000, compared with $9,180,000 at the end of the preceding year, largely represented by $12,106,000 receivable under long-term interest-bearing sales agreements.

The transactions in the Agency Account during the year, compared with the preceding year, are summarized as follows:

	Year ended March 31 1971	1970
Sales made on behalf of—		
Canada	$ 21,915,000	$ 15,963,000
Others	447,000	557,000
	22,362,000	16,520,000
Less: Direct costs relating to sales	57,000	47,000
Payment for interest of third party in property sold	—	1,617,000
	57,000	*1,664,000*
	22,305,000	14,856,000
Interest	676,000	550,000
	22,981,000	15,406,000
Deduct:		
Portion retainable by the Corporation from net sales and other income earned	1,754,000	1,193,000
Remittances to the Receiver General	17,425,000	12,293,000
Other remittances	437,000	536,000
	19,616,000	14,022,000
Increase (decrease) in equity—		
Canada	3,400,000	1,419,000
Others	(35,000)	(35,000)
	$ 3,365,000	$ 1,384,000

The increase of $5,842,000 in sales comprises increases in sales of lands and buildings, $2,256,000, and in other sales, $3,586,000, and was mainly due to four exceptionally large sales.

300. *Defence Construction (1951) Limited.* This Company which is located in Ottawa was incorporated in 1951 under the Canada Corporations Act, *R.S., c. C-32,* pursuant to the authority in section 6 of the Defence Production Act, *R.S., c. D-2.*

The Company is responsible for awarding and supervising contracts for defence construction projects and may assist civilian agencies of the Government. Funds to finance projects are provided by the departments concerned, or by the United States Government for defence projects undertaken on its behalf in Canada.

Expenditures on construction projects approved by the Company for payment by the departments or agencies concerned increased from $26 million in 1969-70 to $37 million in 1970-71.

The following is a summary of expense and income for the past two years:

	Year ended March 31 1971	Year ended March 31 1970
Expense—		
Salaries and living allowances	$ 3,723,000	$ 3,636,000
Employee benefits	292,000	257,000
Travel and removal	211,000	209,000
Other	339,000	283,000
	4,565,000	4,385,000
Income—		
Reimbursement for engineering and administrative services, etc.	2,334,000	2,220,000
Net expense	$ 2,231,000	$ 2,165,000
Net expense provided for by—		
National Defence Vote 35 (Vote 55 in 1969–70)	$ 2,195,000	$ 2,135,000
Government departments which provided major services without charge	36,000	30,000
	$ 2,231,000	$ 2,165,000

301. *Eldorado Aviation Limited.* This Company was incorporated in 1953 under the Canada Corporations Act, *R.S., c. C-32,* and is a wholly-owned subsidiary of Eldorado Nuclear Limited. Operating from headquarters in Edmonton, it provides air transportation services mainly for its parent company and Northern Transportation Company Limited, another wholly-owned subsidiary of Eldorado Nuclear Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Nuclear Limited in the Company at December 31, 1970 comprised capital stock of $28,000 and surplus of $257,000.

The following is a summary of the net expense of the Company for the past two years:

	Year ended December 31 1970	Year ended December 31 1969
Salaries, wages and employee benefits	$ 451,000	$ 425,000
Supplies	176,000	196,000
Repairs	164,000	138,000
Hangar expense	47,000	48,000
Insurance	38,000	39,000
Depreciation	30,000	32,000
Other	30,000	34,000
	936,000	912,000
Miscellaneous income	34,000	40,000
Net expense	$ 902,000	$ 872,000

The net expense for the year was recovered by the Company from Eldorado Nuclear Limited and from Northern Transportation Company Limited in the amounts of $716,000 and $186,000.

302. *Eldorado Nuclear Limited.* This Company was incorporated in 1945 under the Canada Corporations Act, *R.S., c. C-32,* following expropriation in 1944 of the shares of a privately-owned company. The principal functions of the Company are to produce, refine, procure and sell uranium and allied products and to produce zirconium metal which is used in nuclear power plants. The head office of the Company and the Research and Development Division are in Ottawa, the Beaverlodge mine is near Uranium City, Sask., and the refinery, the zirconium plant and the administrative offices are in Port Hope, Ont.

The equity of the Crown in the Company at December 31, 1970 amounted to $73,626,000 comprising capital stock of $6,586,000, surplus of $41,798,000, and loans of $25,242,000, including accrued interest. The loans were made under the authority of Vote L3b, Appropriation Act No. 1, 1969, *1968-69, c.23,* and Vote L75, Appropriation Act No. 3, 1970, *1969-70, c.46,* for the purpose of meeting capital and operating expense and bear interest varying from 7% to 8 3/8%. A condition pertaining to $16,500,000 of the loans is that they be liquidated from moneys received by the Company under certain sales agreements. A total of $4,392,000 was due to be repaid within one year.

The following is a summary of income and expense for the past two years:

	Year ended December 31	
	1970	1969
Income—		
Sales of products and services	$ 5,637,000	$ 3,761,000
Expense—		
Cost of products and services sold	6,181,000	3,433,000
Scientific research	623,000	697,000
Administration	332,000	421,000
Marketing	267,000	197,000
Exploration	62,000	392,000
	7,465,000	5,140,000
Net loss from operations	1,828,000	1,379,000
Interest and other non-operating expense (net)	781,000	(160,000)
Net loss	$ 2,609,000	$ 1,219,000

The provision for depreciation in 1970 amounted to $1,005,000 and in 1969 to $707,000.

Income from sales of products and services increased by $1,876,000, or approximately 50% over the previous year, including an increase in sales of concentrates,

$1,104,000, initial sales of zirconium, $308,000, and an increase in charges for the conversion of concentrates to uranium hexafluoride, $409,000. Cost of sales increased by $2,748,000, or approximately 80% over the previous year, comprising mainly increases in the cost of concentrates, $757,000, initial costs of zirconium production, $1,404,000, and an increase in the cost of converting concentrates, $780,000. The loss of $1,096,000 on zirconium reflects difficulties experienced by the Company in starting up its zirconium plant.

Exploration costs decreased by $330,000 to $62,000, the work being on claims contiguous to existing mine property. No major exploration activity was planned for 1971.

The increase of $941,000 in interest and other non-operating expense (net) was due mainly to an increase of $1,240,000 in interest on loans offset by an increase of $470,000 in income arising from the ore procurement program.

The Governor in Council granted authority in 1963 and 1965 for the entry into contracts between Her Majesty the Queen in right of Canada represented by the Company and certain other uranium producers for the purchase of uranium concentrates for stockpiling by Canada. At December 31, 1970 the Company was the custodian of uranium concentrates thus acquired at a total cost of $101,178,000. Funds for the acquisition of these concentrates were provided for by parliamentary appropriations and accordingly their cost was not included in the accounts of the Company.

303. *Export Development Corporation.* This Corporation was established on October 1, 1969 by the Export Development Act, *R.S., c. E-18,* to facilitate and develop export trade by the provision of insurance, guarantees, loans and other financial facilities. The Act declared the Corporation to be the successor to the Export Credits Insurance Corporation on that date and all property, rights, obligations and liabilities of the Export Credits Insurance Corporation became those of the Export Development Corporation. The Corporation is intended to operate on a self-sustaining basis. The head office is in Ottawa and there are branches in Montreal, Toronto and Vancouver.

Section 27 of the Act provides that, where the Board of Directors is of the opinion that a proposed contract of insurance will impose upon the Corporation a liability for a term or in an amount in excess of that which the Corporation would normally undertake, the Governor in Council may authorize the Corporation to enter into the proposed contract. In the event of a loss on such a contract or on a similar contract previously entered into under section 21 of the Export Credits Insurance Act, *R.S. 1952, c.105,* all moneys required to discharge the liability are to be paid from the Consolidated Revenue Fund. The Corporation must not assume liabilities in excess of a total of $500 million under such contracts.

To further promote export trade, section 29 of the Act permits the Corporation to provide long-term financing for capital projects of substantial value. However,

such financing under this section or section 21A of the Export Credits Insurance Act is not to exceed a total of $600 million. In addition, section 31 of the Act provides that where the Board is of the opinion that a proposed long-term financing agreement is for a term or in an amount in excess of that which the Corporation would normally undertake and the Minister is of the opinion that the proposed agreement is in the national interest, the Governor in Council may authorize the Corporation to enter into the agreement. All moneys required with respect to contracts authorized by the Governor in Council are to be provided out of the Consolidated Revenue Fund but must not at any time exceed a total of $200 million.

The Crown's equity in the Corporation at December 31, 1970 was $344,153,000 consisting of share capital of $15,000,000, capital surplus of $15,000,000, an underwriting reserve of $6,000,000, a reserve for losses of $1,620,000, retained earnings of $8,281,000, and loans and accrued interest totalling $298,252,000.

The underwriting reserve, established to provide for losses on contracts of insurance entered into on the Corporation's own account, remained unchanged at $6 million. At December 31, 1970 the reserve amounted to 2.3% of the Corporation's liabilities under these contracts compared with 2.8% of the corresponding liabilities at the end of the preceding year and 3.1% at the end of 1968.

The following is a summary of operations for the year 1970 with comparable figures for 1969 combining the operations for the three months ended December 31, 1969 with the operations of the Export Credits Insurance Corporation for the nine months ended September 30, 1969:

	Year ended December 31	
	1970	1969
Income—		
Premiums, guarantee fees, and net interest earned on export financing	$ 3,535,000	$ 1,981,000
Expense—		
Salaries and staffing costs	1,302,000	1,144,000
Accommodation and occupancy improvements	372,000	142,000
General administration	220,000	172,000
Travel and public relations	123,000	88,000
	2,017,000	1,546,000
Operating income	1,518,000	435,000
Policyholders' claims—		
Recoveries	907,000	331,000
Payments	610,000	849,000
	297,000	(518,000)
Interest on investments	3,164,000	927,000
	3,461,000	409,000
	4,979,000	844,000

	Year ended December 31	
	1970	1969
Special items—		
Canada's share of earnings	$ 150,000	$ —
Foreign exchange loss	42,000	—
	192,000	—
Net income	$ 4,787,000	$ 844,000

The increase of $2,237,000 in interest on investments includes $2,164,000 earned on deposits with the Receiver General for Canada. Prior to October 1, 1969 such deposits were non-interest bearing. Canada's share of earnings, shown as a special item in the summary of operations, represents the excess of revenue over expense in respect of contracts entered into at the risk of the Consolidated Revenue Fund.

The following statistics show the extent of the operations of the Corporation during the year in comparison with the operations in the previous year:

	Year ended December 31	
	1970	1969
Export sales insured at the risk of the—		
Corporation:		
Policies written	$ 385,104,000	$ 233,160,000
Policies in force at year-end	257,502,000	211,956,000
Government:		
Policies written	176,456,000	8,686,000
Policies in force at year-end	243,198,000	116,789,000
Export financing agreements at the risk of the—		
Corporation:		
Agreements signed	96,071,000	65,269,000
Disbursements made	70,714,000	54,963,000
Principal repayments	27,852,000	27,071,000
Principal outstanding at year-end	289,800,000	250,403,000
Government:		
Agreements signed	4,000,000	—
Disbursements made	—	—
Principal repayments	—	—
Principal outstanding at year-end	—	—

The following is a summary of transactions in respect of claims paid to policyholders:

Nature of claim	Outstanding Jan. 1, 1970	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1970
Insolvency	$ 170,000	$ 265,000	$ 64,000	$ 152,000	$ 219,000
Default	1,267,000	262,000	224,000	290,000	1,015,000
Exchange transfer	1,389,000	74,000	613,000	26,000	824,000
Other	12,000	9,000	6,000	1,000	14,000
	$ 2,838,000	$ 610,000	$ 907,000	$ 469,000	$ 2,072,000

The Corporation anticipates substantial recoveries from the outstanding claims of \$2,072,000 and the amounts recovered will be recorded as income in the year in which the recoveries are effected.

Last year we reported that the Export Development Corporation had improperly retained \$3,267,000, the Government's portion of accrued interest at September 30, 1969 on notes receivable held under financing agreements in the name of its predecessor, the Export Credits Insurance Corporation. In June 1971 the Export Development Corporation remitted the amount retained together with interest to the Receiver General for Canada.

304. *Farm Credit Corporation.* This Corporation was established by the Farm Credit Act, *R.S., c. F-2,* to make, administer and supervise long-term mortgage loans to farmers. The Corporation also administers the Farm Syndicates Credit Act, *R.S., c. F-4,* which authorizes the making of loans to qualified syndicates of three or more farmers for the purchase of machinery, buildings or land for their co-operative use. The head office of the Corporation is in Ottawa and there are seven provincial branch and 118 field offices including the offices of 30 district supervisors.

The Crown's equity in the Corporation at March 31, 1971 was \$1,207,098,000 comprising: capital, \$45,300,000; loans from Canada, \$1,131,450,000 (of which \$6,280,000 was in respect of the Farm Syndicates Credit Act); accrued interest on loans from Canada, \$29,048,000; a reserve for losses under the Farm Credit Act, \$1,288,000; and retained earnings from operations under the Farm Syndicates Credit Act, \$12,000.

During the year, 4,100 loans amounting to \$116,548,000 were made under the Farm Credit Act compared with 5,743 loans totalling \$158,018,000 in the previous year. Repayments of principal amounted to \$73,964,000. Loans outstanding at March 31, 1971 including accrued interest amounted to \$1,202,547,000 compared with \$1,153,713,000 at March 31, 1970.

The following is a summary of the income and expense of the Corporation under the Farm Credit Act for the past two years:

	Year ended March 31	
	1971	1970
Income—		
Interest earnings	\$ 64,796,000	\$ 58,473,000
Deduct: Interest on loans from Canada	66,862,000	60,525,000
	(2,066,000)	(2,052,000)
Appraisal, supervision and legal fees, etc.	845,000	1,121,000
	(1,221,000)	(931,000)

	Year ended March 31 1971	1970
Expense—		
Salaries and employee benefits	$ 6,022,000	$ 5,982,000
Office accommodation	489,000	482,000
Travel	485,000	583,000
Postage, express, telephone and telegraph	133,000	142,000
Rental and maintenance of office equipment	109,000	100,000
Printing, stationery and office supplies	71,000	102,000
Depreciation	46,000	51,000
Other	62,000	65,000
	7,417,000	7,507,000
Less: Portion allocated to operations under the Farm Syndicates Credit Act	35,000	28,000
	7,382,000	7,479,000
Net operating loss provided for by Agriculture Vote 45 (Vote 70 in 1969–70)	$ 8,603,000	$ 8,410,000

With respect to operations under the Farm Syndicates Credit Act, the Corporation had income of $51,000 from earned interest (net) and service charges, wrote off loans of $5,000 and allocated expenses of $35,000 to these operations. The net profit of $11,000 was transferred to retained earnings which increased the balance in that account to $12,000 at March 31, 1971. Since the Act came into force on December 11, 1964, the Corporation has made 881 loans totalling $8,906,000 repayable over a term not exceeding fifteen years. Loans outstanding at March 31, 1971 totalled $6,377,000 including accrued interest. The interest rate on new loans was reduced from 8½% to 8% effective October 1, 1970 and to 7% effective April 1, 1971.

Section 15 of the Farm Credit Act requires the Corporation to establish a reserve out of which may be paid "any losses sustained by the Corporation in the conduct of its business". The section further provides that the Corporation shall credit its net earnings each year to this reserve until the amount of the reserve equals the capital of the Corporation. At March 31, 1971 the capital of the Corporation amounted to $45,300,000 whereas the reserve for losses was only $1,288,000. In our report to the Minister of Agriculture under section 77 of the Financial Administration Act on the results of our examination of the accounts of the Corporation, we referred to the inadequacy of the former statutory lending rate of 5% on loans to farmers and the continuing deficiency in the reserve for losses.

The statutory lending rate of 5% was abolished with effect from November 15, 1968 and the interest rate on loans to farmers is now prescribed for each interest period in accordance with the Farm Credit Act Interest Rates Regulations. On October 1, 1970 the rate was reduced from 8¾% to 8½% and on April 1, 1971 it was further reduced to 7¾%. However, these rates were applicable only to new loans and annual losses will continue with respect to loans made at the former statutory rate so that for a considerable time there will be no earnings to credit to the reserve for

losses. Since 1963 the annual losses of the Corporation resulting from the low statutory interest rate have been recovered from annual parliamentary appropriations. This policy will prevent further depletion of the reserve by such losses, but does not provide for the building up of the reserve to an amount equivalent to the capital of the Corporation as is contemplated by the Farm Credit Act.

In 1969 we recommended to the Corporation that in view of the magnitude of its operations and the growing volume and value of its outstanding loans, consideration should be given to the appointment of an internal auditor. An appointment has been made effective September 1, 1971.

305. *Freshwater Fish Marketing Corporation.* This Corporation, established by the Freshwater Fish Marketing Act, *R.S., c. F-13,* consists of a Board of Directors composed of a chairman, a president, one director for each participating province and four other directors, each of whom is appointed by the Governor in Council to hold office for a term not exceeding five years. A director for a participating province is appointed on the recommendation of the Lieutenant Governor in Council of that province. The head office of the Corporation is in Winnipeg. The Corporation was constituted to market and trade in fish, fish products and fish by-products in and out of Canada with the object of increasing returns to fishermen.

At April 30, 1970 the Crown's equity in the Corporation was $1,900,000 in the form of loans.

The following is a summary of the income and expense of the Corporation for the year ended April 30, 1970, its first year of operations:

Sales		$ 14,398,000
Cost of sales		13,010,000
		1,388,000
Expense—		
Salaries and employee benefits	$ 250,000	
Interest	120,000	
Bad debts written off and provision for doubtful accounts	64,000	
Professional services	54,000	
Travel	52,000	
Communications	27,000	
Office supplies	27,000	
Accommodation	14,000	
Other	51,000	
	659,000	
Less: Government grant provided under section 16 of the Act	100,000	
		559,000
Excess of income over expense to be distributed to fishermen		$ 829,000

306. *The National Battlefields Commission.* This Commission was established by The National Battlefields at Quebec Act, *1908, c.57,* to acquire and preserve the

historic battlefields at Quebec. The Commission consists of nine members, seven of whom are appointed by the Governor in Council and one each by the Provinces of Ontario and Quebec.

At March 31, 1971 the proprietary equity of the Crown in the Commission was $1,666,000 comprising capital assets at cost, $1,639,000, and working capital of $27,000.

The following is a summary of the expense of the Commission for the past two years:

	Year ended March 31	
	1971	1970
Salaries, wages and employee benefits	$ 186,000	$ 213,000
Policing services	32,000	31,000
Light, heat, power, gasoline and oil	18,000	17,000
Repairs of roads, driveways and buildings	16,000	28,000
Legal services	10,000	5,000
Operating supplies and nursery stock	9,000	10,000
Tree surgery	6,000	3,000
Other	7,000	14,000
	284,000	321,000
Capital outlay	6,000	16,000
	$ 290,000	$ 337,000

The expense for the year was met to the extent of $289,000 from Indian Affairs and Northern Development Vote 75 and $1,000 from miscellaneous income.

Funds contributed by the provincial governments, municipalities and others, which may be used only for the acquisition of land with parliamentary approval, amounted with interest to $41,000 at March 31, 1971. There have been no transactions since 1938.

307. *National Capital Commission.* This Commission was established by the National Capital Act, *R.S., c. N-3,* to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission formed in 1899. The objects of the Commission are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance". The Commission consists of 20 members from across Canada appointed by the Governor in Council for terms not exceeding four years.

Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to

municipalities; construction and operation of concessions; and the administration of historic buildings and sites.

At March 31, 1971 the Crown's equity in the Commission was $183,726,000 represented by capital assets at cost, $163,139,000, and working capital, $20,587,000.

The Commission's activities are financed by annual parliamentary appropriations, by loans from Canada for the acquisition of property, by revenues from rentals, etc., and by sales of land acquired from the National Capital Fund. These sources provided funds totalling $26,248,000 in 1970-71, bringing to $42,644,000 funds available to the Commission as follows:

Balance in National Capital Fund, April 1, 1970		$ 13,528,000
Unexpended prior year loans from Canada		2,868,000
		16,396,000
Parliamentary appropriation to National Capital Fund	$ 17,100,000	
Less: Amount used to repay loans from Canada	7,565,000	
		9,535,000
Parliamentary appropriation for operating expenditures		11,296,000
Loans from Canada for the acquisition of property		3,000,000
Revenues		2,058,000
Recovery of prior years' expenditure		416,000
Sales of land acquired from the National Capital Fund		95,000
Adjustment in respect of prior year sale of land		(152,000)
		26,248,000
		$ 42,644,000

Expenditure was $22,400,000 leaving a balance available for future expenditure of $20,244,000 at March 31, 1971, comprising $16,943,000 in the National Capital Fund and $3,301,000 in unexpended loans from Canada. At March 31, 1971 the Commission also had parliamentary authority to borrow a further $3,000,000 for property acquisitions in the Greenbelt, being the difference between the total amount of $43,300,000 authorized by Parliament for this purpose and the $40,300,000 borrowed by the Commission. The following is a summary of expenditure for the past two years:

	Year ended March 31	
	1971	1970
Operating expenditure—		
Operation and maintenance	$ 4,743,000	$ 3,166,000
Administration	3,762,000	3,891,000
Interest on loans	3,369,000	3,449,000
Contributions, assistance to municipalities, maintenance and rehabilitation projects, etc.	2,744,000	2,991,000
Grants in lieu of taxes	1,070,000	1,081,000
	15,688,000	14,578,000

	Year ended March 31	
	1971	1970
Capital expenditure—		
Property acquisitions	$ 3,608,000	$ 4,935,000
Parkways	1,349,000	1,030,000
Improvements to lands and buildings	681,000	1,307,000
Operating and office equipment	410,000	470,000
Other, including parks	664,000	239,000
	6,712,000	7,981,000
	$ 22,400,000	$ 22,559,000

Operation and maintenance expenditure increased by $1,577,000, of which labour costs account for $1,190,000 as follows: retroactive pay of $690,000 resulting from a new collective bargaining agreement and approximately $500,000 in wages of additional hourly rated employees, of which $321,000 was spent on a supplementary work program in the Gatineau Park. Snow removal costs for government grounds were double that of the previous year, an increase of $390,000.

The cost of contributions, assistance to municipalities, maintenance and rehabilitation projects, etc., decreased by $247,000 as a result of a reduction of $887,000 in expenditure on the repair of the Champlain Bridge and a decrease of $497,000 in railway relocation expenditure, offset in part by a contribution of $1,153,000 towards the cost of a filtration plant in Hull for which there was no counterpart last year.

The decrease of $1,327,000 in expenditure for property acquisitions was mainly accounted for by reduced outlays of $860,000 for future parkways in the National Capital Region, $214,000 in the Confederation Square area, $213,000 in downtown Hull, and $199,000 on Sussex Drive, offset in part by increased purchases in the Greenbelt of $167,000.

Expenditure on parkways increased by $319,000 primarily due to the construction of the Airport Parkway.

The decrease in expenditure of $626,000 on improvements to lands and buildings was more than accounted for by a reduction of $388,000 in expenditure on improvements to the Transportation Building, Ottawa, which now serves as the headquarters for the Commission and a decrease of $265,000 in expenditure on improvements in the LeBreton Flats area.

Expenditure of $214,000 on plans for, and construction of, a sewerage system at Lac Philippe comprised the major portion of the increase of $425,000 in other capital expenditure.

In August 1969 the Commission received a directive from the Treasury Board with respect to loans for the purchase of property other than in the Greenbelt under

which, starting in 1970-71, loans would be provided only to acquire, improve and service properties which are to be sold to other users, thereby enabling the Commission to repay the loans. The Commission interprets this directive as referring to sales to government departments as well as to outsiders. During the year property acquisition financed by loans totalled $2,567,000 compared with $4,630,000 in the previous year. Inasmuch as, to the best of our knowledge, this land is to be used for government purposes, we are of the opinion that its cost should have been charged to expenditure.

Paragraphs 96 and 97 of this Report deal with matters noted in the course of our examination of the financial transactions of the Commission.

308. *National Harbours Board.* This Board, which has its head office in Ottawa, was established in 1936 by the National Harbours Board Act, *R.S., c. N-8,* and has jurisdiction over the harbours of St. John's, Halifax, Saint John, Belledune, Chicoutimi, Quebec, Trois-Rivières, Montreal (including the Jacques Cartier and Champlain Bridges), Churchill and Vancouver, together with grain elevators at Prescott and Port Colborne. The Board consists of a chairman, a vice-chairman and two other members appointed by the Governor in Council.

The Crown's equity in the Board at December 31, 1970 was $523,577,000 comprising: equity represented by the cost of assets transferred to the Board on its establishment and subsequently, $75,497,000; loans and advances, $410,153,000; interest in arrears on loans and advances, $151,584,000; reserves, $11,576,000; and accumulated deficit of $125,233,000. The Crown also had an equity of $10,280,000 in certain projects on the Board's Montreal Harbour property relating to the Canadian Universal and International Exhibition, Montreal, 1967.

The Board's indebtedness to Canada for loans and advances increased by $6,714,000 during the year while interest in arrears increased by $11,372,000. The loans and advances and the arrears of interest thereon have increased steadily in recent years as shown in the following table:

December 31	Loans and advances	Interest in arrears on loans and advances
1961	$ 290,937,000	$ 64,786,000
1962	308,882,000	71,290,000
1963	316,787,000	78,559,000
1964	320,094,000	86,204,000
1965	323,212,000	93,285,000
1966	343,788,000	103,203,000
1967	365,643,000	114,561,000
1968	394,524,000	127,211,000
1969	403,439,000	140,212,000
1970	410,153,000	151,584,000

In previous Reports we have observed that there was little prospect of the Board being able to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In February 1967 the Public Accounts Committee, in its Twelfth Report 1966-67, commented as follows (see Appendix 1, item 24):

> The Committee is concerned that there appears to be little prospect of the Board being in a position to meet its principal and interest obligations and recommends that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter will be dealt with by the Department of Finance and the Board within the next twelve months.

The financial structure of the Board was not reconstituted as the proposals made by the Department of Finance were not acceptable to the Board. The matter was subsequently left in abeyance pending the creation of the Canadian Marine Transportation Administration. This Administration, of which the Board forms part, was created in 1970 and is to be structured to co-ordinate and develop all federal waterways and harbour services on a self-financing basis. On May 12, 1971, the Minister of Transport made a statement in the House of Commons in which he outlined the proposed developments and the objectives of the new Administration. On May 13 the Public Accounts Committee discussed the matter with officers of the Board and the Canadian Marine Transportation Administration but no further recommendation has been made by the Committee.

Montreal Harbour is adjacent to the site of the 1967 World Exhibition and some of the Board's properties were expanded to provide facilities to service the site. The larger projects involved the widening of MacKay Pier, the relocation of harbour railway tracks, the filling and grading of a parking lot, and the construction of a roadway which connects the University Street extension to the site and to the Champlain Bridge. These projects with a cost value of $10,280,000 were financed by parliamentary appropriations. They have been under the management, charge and direction of Central Mortgage and Housing Corporation but by March 31, 1971 most of them had reverted to the administration, management and control of the Board.

Until revocation of tolls on June 1, 1962 the Jacques Cartier Bridge was operated under a tripartite agreement which required both the City of Montreal and the Province of Quebec to pay to the Board one-third of any annual deficit arising from the operation of the Bridge to a maximum of $150,000 each. Since 1944 the Province has refused to make the required contributions and at the end of 1949 its accumulated indebtedness amounted to $744,000. The accounts of the Board continue to show this amount as due from the Province. From 1950 until revocation of tolls the Bridge did not incur an operating deficit. Prior to September 1966 the Board was unable to institute legal proceedings against the Province without first obtaining a fiat from the Provincial Attorney General. In 1967 the Board resubmitted its claim

to the Province. In the same year the Board submitted the problem to a special committee of the Treasury Board Advisory Committee on Real Property but no solution was forthcoming. In August 1970 the Board reported to the Federal-Provincial Relations Secretariat of the Privy Council Office on several other problems in the Montreal-Longueuil area of Quebec but made no specific reference to this problem. (See also paragraph 60 of this Report.)

The following is a summary of the operations of the National Harbours Board for the past two years:

		Year ended December 31	
		1970	1969
Income—			
Berthing facilities		$ 5,439,000	$ 4,906,000
Shore facilities		32,059,000	28,424,000
Support services		2,443,000	2,190,000
Bridges		2,714,000	2,437,000
		42,655,000	37,957,000
Expense—			
Operation and maintenance:			
Berthing facilities	$ 1,685,000		1,680,000
Shore facilities	9,936,000		9,558,000
Support services	8,082,000		8,063,000
Bridges	1,930,000		1,873,000
		21,633,000	21,174,000
Depreciation		7,903,000	7,609,000
Grants in lieu of municipal taxes		6,571,000	5,278,000
Administration:			
Salaries of Board Members and Executive Officers	106,000		157,000
Other salaries	2,789,000		2,721,000
Contributions to employee pension plans	166,000		169,000
Office expense	1,011,000		1,323,000
Miscellaneous	657,000		248,000
		4,729,000	4,618,000
		40,836,000	38,679,000
Excess of income over expense		1,819,000	(722,000)
Interest expense—			
Interest on loans and advances from Canada	15,640,000		14,973,000
Less: Interest received on investments	5,413,000		4,196,000
		10,227,000	10,777,000
Deficit for the year		$ 8,408,000	$ 11,499,000

The increase in income from shore facilities was mainly attributable to a 22% increase in the total cargo, principally grain, handled by the Port of Montreal as

well as significant increases in the cargo handled in both the ports of Vancouver and Quebec.

The increase in grants in lieu of municipal taxes is mainly due to retroactive payments of grants to the City of North Vancouver for 1969 and prior years.

The increase in interest received on investments was due to increased holdings of treasury bills and to the Board's cash holdings being in a special account yielding nearly double the interest of prior years.

Paragraphs 130 to 138 and item 6 in paragraph 212 of this Report deal with several matters noted in the course of our examination of the financial transactions of the Board.

309. *Northern Canada Power Commission.* This Commission, established in 1948 under the Northern Canada Power Commission Act, *R.S., c. N-21,* consists of three members appointed by the Governor in Council. The objects of the Commission are to construct and operate electric power plants and other public utilities and to supply power and utilities to users in the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. The Commission, with its head office in Ottawa, operates nineteen power plants, five heating plants, six sewerage systems and seven water systems.

The Crown's equity in the Commission at March 31, 1971, comprised:

Advances	$ 49,410,000
Portion of interest on advances not recorded in Public Accounts	1,180,000
Cost of:	
Central heating, water and sewerage and fire alarm systems financed by parliamentary appropriations	9,841,000
Extension, expansion and improvements of capital assets, financed from earnings	1,343,000
Reserve for contingencies	2,590,000
Retained earnings	789,000
	$ 65,153,000

The Commission also acts as agent for Canada in respect of loans of $216,554,-000 made to provincial power commissions under the Atlantic Provinces Power Development Act, *R.S., c. A-17.*

In reports to the Commission's management in recent years and in paragraphs 131, 132 and 133 of our 1970 Report to the House of Commons, we drew attention to expenditure made without proper authority, inadequate accounting and financial controls and inadequate collection action with respect to accounts receivable. While there was some improvement in the collection of accounts receivable, in general the conditions not only continued to exist in the year ended March 31, 1971 but had deteriorated to such an extent that it was not possible to express an opinion as required by section 77 of the Financial Administration Act on the correctness of the Commission's accounts and financial statements for the year ended on that date. This matter is also referred to in paragraph 156 of this Report.

The following is a summary of the income and expense of the Commission based on the uncertified financial statements for the year, with comparative figures for the preceding year:

	Year ended March 31	
	1971	1970
Income—		
Sale of power	$ 7,815,000	$ 6,555,000
Income arising from construction, maintenance and operation of facilities for government departments and others	1,691,000	1,548,000
Sale of heat	1,273,000	1,228,000
Miscellaneous	375,000	319,000
	11,154,000	9,650,000
Expense—		
Operation and maintenance	6,917,000	5,457,000
Interest on advances from Canada	2,416,000	1,557,000
Depreciation	1,062,000	862,000
Administration	678,000	581,000
	11,073,000	8,457,000
Net income before extraordinary items	81,000	1,193,000
Extraordinary items	510,000	—
Net loss (income)	$ 429,000	$ (1,193,000)

The increase of $1,260,000 in income from the sale of power is mainly attributable to increased demand for power at Faro, Y.T., and at Yellowknife, Inuvik, Frobisher Bay and Cambridge Bay in the Northwest Territories, to the transfer of the power plant at Fort McPherson from the Government of the Northwest Territories to the Commission and the operation for a complete year of the plant at Fort Good Hope.

The increase of $143,000 arising from construction, maintenance and operation of facilities for government departments and others is due mainly to the construction of a waterworks extension at Inuvik and the construction of a utilidor extension to the school at Frobisher Bay.

The increase of $45,000 in the sale of heat is largely attributable to the increased demand for heat to service the Inuvik community.

The increase of $1,460,000 in operation and maintenance expense is mainly due to increases of $325,000 in salaries and wages, $349,000 in fuel and lubricants, $286,000 in plant expenses including improvement and $159,000 in provision for doubtful accounts. An increase in the number of employees, salary increments and a general increase in price levels were the main contributing factors.

Extraordinary items of $510,000 comprised mainly pay increases retroactive to October 1967 in accordance with a collective bargaining agreement made in 1970,

$219,000, adjustment of fuel costs of prior years, $112,000, and adjustments to the previous year's revenues from the sale of heat and power, $130,000.

Paragraph 157 of this Report also deals with certain matters noted in the course of our examination of the financial transactions of the Commission.

310. *Northern Transportation Company Limited and subsidiary company.* Northern Transportation Company Limited, a wholly-owned subsidiary of Eldorado Nuclear Limited, was incorporated in 1947 under the provisions of the Canada Corporations Act, *R.S., c. C-32,* to take over the business of a predecessor company whose shares had been acquired when the capital stock of a privately-owned company was expropriated by the Crown in 1944. In 1965 the Company acquired the capital stock of Yellowknife Transportation Company Limited and its operations have been integrated with those of the parent.

The Company is empowered to carry on a general transportation business by land and water throughout Canada and elsewhere, but activities have been almost wholly confined to the Mackenzie River system and the Western Arctic. The head office of the Company is in Ottawa and administrative headquarters are in Edmonton.

The equity of Eldorado Nuclear Limited in the Company at December 31, 1970 was $8,472,000 comprising capital stock of $152,000, a reserve for insurance of $500,000, contributed surplus of $1,003,000, and retained earnings of $6,817,000.

The reserve for insurance is fully funded in short-term deposits. Its purpose is to provide for the replacement of any assets destroyed by fire, explosion or other catastrophe, and the amount of the reserve, $500,000, is related to the maximum probable loss of assets other than large Arctic vessels which were commercially insured for a total of $6,180,000.

In the fiscal years 1968-69, 1969-70 and 1970-71 the Company was authorized to borrow up to an aggregate amount of $20,500,000 subject to certain terms and conditions prescribed by the Governor in Council to finance the acquisition of transportation facilities for use on the Mackenzie River and Central Arctic coast. Of this amount, $17,500,000 has been borrowed and a further $3,000,000 is available to the Company. A total of $3,000,000 has been repaid and $3,879,000 including interest of $379,000 is repayable within one year. The remainder of $11,000,000 is repayable by December 31, 1974.

The following is a summary of the results of the Company's operations for the past two years:

	Year ended December 31	
	1970	1969
Income—		
Freight earnings	$ 8,356,000	$ 8,492,000

	Year ended December 31 1970	1969
Expense—		
Operation and maintenance:		
Salaries and wages	$ 2,880,000	$ 2,600,000
Depreciation	1,947,000	2,128,000
Repairs and maintenance	1,227,000	1,302,000
Fuels and lubricants	555,000	465,000
Messing	194,000	144,000
Other	439,000	381,000
	7,242,000	*7,020,000*
Administration	749,000	579,000
	7,991,000	7,599,000
Net income from operations	365,000	893,000
Miscellaneous income	110,000	82,000
	475,000	975,000
Interest on loans from Canada	1,019,000	468,000
	544,000	(507,000)
Provision for income tax	—	251,000
Net loss (income)	$ 544,000	$ (256,000)

Although 281,000 tons of freight were handled compared with 256,000 tons in 1969, revenue declined slightly due to a curtailment of long-haul freight for Arctic oil exploration.

Despite the continued substantial increase in the value of capital assets, depreciation declined by $181,000 to $1,947,000 due to a change in the Company's depreciation policy. The Company's marine equipment is now being depreciated over 15 years rather than 10 years as in the past. As explained in a note to the financial statements the depreciation expense and the loss for 1970 would have been $641,000 greater had the rates in effect in 1969 been used.

311. *Polymer Corporation Limited and subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Canada Corporations Act, *R.S., c. C-32,* pursuant to the provisions of section 6 of the Department of Munitions and Supply Act, *1939, c.3,* for the purpose of producing synthetic rubbers and chemicals. To enable the Corporation to become more diversified, its purposes were extended by supplementary letters patent issued in May 1970 to include other products and services. The head office of the Corporation is in Sarnia, Ont.

During the year a wholly-owned subsidiary, Polysar Latex Inc., was incorporated in the United States and, working towards its broader objectives, the Corporation entered the polystyrene field in that country with the acquisition of Solar Chemical

Corporation and its subsidiaries. The Corporation also acquired a substantial interest in Com-Share (Canada) Limited, a computer time-sharing company, with the option to obtain majority control; and a minority interest in Stressed Structures Inc. in the United States from which it obtained an exclusive licence for application of its technology in Canada, as well as options for similar licences in several other countries.

At December 31, 1970 the Corporation had fifteen wholly-owned subsidiaries: three each in Switzerland and the United States, two each in the Netherlands and Canada and one each in Britain, Belgium, Italy, Mexico and Sweden, and also held a 95% equity in two subsidiaries in France. The Corporation was a minority shareholder in companies in Mexico, South Africa, the United States and Canada in which it had invested $11,565,000. A note to the financial statements discloses that

> The underlying book equity of the Corporation's investment in other companies is approximately $1,500,000 below cost, which amount is deemed by Management to be substantially less than the portion of such investment relating to unrecorded intangibles acquired during 1970.

Except to the extent of dividends received, no provision has been made in the accounts for the profits or losses of companies in which the Corporation is a minority shareholder.

The equity of the Crown in Polymer Corporation Limited and its subsidiary companies at December 31, 1970 amounted to $117,808,000 comprising capital stock of $30,000,000 and retained earnings of $87,808,000. Dividends of $3,000,000 paid to the Receiver General in 1970 were $3,000,000 less than in 1969.

Net additions to fixed assets amounted to $11,037,000. The major items included the conversion from coal to gas of the steam and power plant, expansion of the butyl finishing capacity and of the pollution abatement programs in Sarnia, a foam latex plant and an addition to the butadiene-styrene rubber facilities at Strasbourg, France, as well as replacements of, and improvements to, existing production facilities.

Long-term liabilities totalled $37,628,000 at the year-end. Of this amount $16,-000,000 is payable in Canadian currency and the balance in foreign currencies as follows: F.fr. 44,125,000 ($9,048,000), B.fr. 430,500,000 ($9,307,000), and US$3,091,000 ($3,273,000).

The following is a summary of the operations of the Corporation and its subsidiaries for the past two years:

	Year ended December 31	
	1970	1969
Income—		
Sales	$ 150,571,000	$ 155,718,000
Other	6,108,000	4,252,000
	156,679,000	159,970,000

	Year ended December 31 1970	1969
Expense—		
Cost of sales	$ 125,053,000	$ 121,459,000
Selling, administration and research	22,496,000	19,169,000
	147,549,000	140,628,000
Net income before provision for income tax and special items	9,130,000	19,342,000
Provision for income tax	581,000	5,540,000
Special items	1,499,000	—
	2,080,000	*5,540,000*
	7,050,000	13,802,000
Adjustment re minority shareholders	10,000	21,000
Net income	$ 7,060,000	$ 13,823,000

The special items comprise losses of $2,117,000 due to the freeing of the Canadian dollar and $277,000 resulting from the cessation of certain manufacturing operations, offset by a favourable adjustment of $895,000 in respect of prior years' income tax provisions.

The decrease of $6,763,000 in net income is the result of the economic slowdown, rising costs and the freeing of the Canadian dollar.

In 1970 a firm of chartered accountants was appointed as joint auditor, with the Auditor General, of the Corporation.

312. *Royal Canadian Mint.* The Mint was incorporated April 1, 1969, under the Royal Canadian Mint Act, *R.S., c. R-8,* with the objects of minting coins in anticipation of profit and carrying out other related activities. The Board of Directors of the Mint consists of a Chairman, the Master of the Mint and five other directors. Its head office is in Ottawa.

The Crown's equity in the Mint at December 31, 1970 was $3,665,000 consisting of working capital of $3,320,000 and capital assets of $345,000. The main equipment of the Mint is rented from the Department of Finance.

The following is a summary of the results of operations for the year ended December 31, 1970 and for the nine months ended December 31, 1969:

	Year ended December 31, 1970	Nine months ended December 31, 1969
Income—		
Sales	$ 8,167,000	$ 7,124,000
Refining charges	471,000	362,000
	8,638,000	7,486,000

	Year ended December 31, 1970	Nine months ended December 31, 1969
Expense—		
Cost of coin and medals sold	$ 4,257,000	$ 4,207,000
Salaries, wages and employee benefits	2,620,000	1,774,000
Utilities and supplies	530,000	245,000
Building and equipment rental	519,000	331,000
Transportation and communications	203,000	49,000
Security	186,000	144,000
Interest on loan	179,000	109,000
Repairs and maintenance	16,000	17,000
Other	50,000	23,000
	8,560,000	6,899,000
Excess of income over expense	$ 78,000	$ 587,000

Operating costs do not include the cost of cheque issue and payroll services provided by the Department of Supply and Services and these costs have not been determined by that Department. These costs should be borne by the Mint in line with the general policy that Crown corporations pay for such services.

The increase in transportation and communications was due mainly to a greater volume of numismatic shipments ($76,000) and freight on Brazilian coin blanks ($39,000).

The following inventories were held on behalf of the Department of Finance at December 31, 1970: coin, $2,317,000 (face value); gold bullion, $8,049,000; and silver bullion, $1,692,000. The Mint also held for safekeeping gold bullion valued at $362,000 which was owned by others.

Section 20 of the Currency, Mint and Exchange Fund Act, *R.S. 1952, c.315,* which required that "the Auditor General shall, at least once in each year, inspect the store of bullion and coin at the Mint", was repealed with effect from April 1, 1969. Section 24(2) of the Royal Canadian Mint Act provides that:

> The Auditor General shall inspect the inventories of stores and metals of the Mint at least once in each year.

As is pointed out in paragraph 361 of this Report, because the store of bullion and coin remains the property of the Department of Finance, there is now no statutory requirement that it be inspected by the Auditor General "at least once in each year". Such counts will be made from time to time as part of our regular audit of the Department of Finance but there will not necessarily be a complete annual inspection of the store of bullion and coin unless Parliament indicates a desire that this be done.

The Public Accounts Committee discussed this matter at its meeting of May 4, 1971 but as no reference was made to it in its Sixth Report presented to the House on

June 30, 1971, we must assume that the Committee is not concerned that there is no longer a statutory requirement that the Auditor General make an annual inspection of the store of bullion and coin at the Mint.

313. *St. Clair River Broadcasting Limited.* This Company, which was incorporated under the Ontario Corporations Act, *R.S.O., c.71,* was acquired by the Canadian Broadcasting Corporation pursuant to authority contained in the Broadcasting Act, *R.S., c. B-11.* It is a wholly-owned subsidiary and its objects include the acquisition, ownership, maintenance and operation of television broadcasting stations. Its head office is in Ottawa.

The equity of the Canadian Broadcasting Corporation in the Company at March 31, 1971 was $746,000 comprising capital stock of $1,600,000 and an operating deficit of $854,000.

On July 24, 1970 the Company concluded a partnership agreement with a private company to purchase with retroactive effect from March 1, 1970 Windsor television station CKLW at a price of US$5,000,000. At the effective date of acquisition the tangible assets of the television station were valued at $4,230,000, which included $1,169,000 for an inventory of film rights.

The Company has a one-quarter interest in the partnership. The Company and the partner each contributed in cash US$1,250,000, one-quarter of the purchase price. The remaining half of the purchase price, US$2,500,000, was met by notes of the partner due to mature on May 31, 1975 and bearing interest at 9% per annum. Under the partnership agreement the Company is to pay the interest on the partner's notes.

The Company has the option of acquiring up to a 49% interest in the partnership at any time prior to May 31, 1975 and an obligation to purchase on that date its partner's share at its cost plus interest.

Up to March 31, 1971 the Company had invested $1,460,000 in the partnership which sustained operating losses totalling $3,135,000 for the thirteen months ended March 31, 1971. This amount is made up of a loss of $1,892,000 to August 31, 1970, based on the audited financial statements to that date, which included $838,000 resulting from the write-off of a portion of the inventory of film rights acquired by the partnership five weeks earlier, and a loss of $1,243,000 for the seven-month period ended March 31, 1971, based on interim financial statements.

As a consequence, the Company's investment of $1,460,000 has been impaired to the extent of $784,000, being its share of the $3,135,000 operating loss of the television station for the thirteen months ended March 31, 1971.

In addition to its share of partnership losses, the Company absorbed interest costs of $156,000 on its partner's notes and administrative expenses of $5,000, and earned investment income of $91,000 including $82,000 interest on the cash con-

tributed to the partnership, its loss for the period ended March 31, 1971 thus amounting to $854,000.

It should be noted that unless the losses experienced to date by the partnership are offset by subsequent profits, the Company will have to absorb the full loss of $3,135,000 because of the requirement that on or before May 31, 1975 it purchase its partner's share at cost, $3,750,000, plus accrued interest and its partner's share of any accrued profits to date of sale.

314. *The St. Lawrence Seaway Authority.* Established by the St. Lawrence Seaway Authority Act, *R.S., c. S-1,* the Authority is a corporation consisting of a president and two other members appointed by the Governor in Council. Its head office is at Ottawa, with operating headquarters at Cornwall, Ont., and regional headquarters at St. Lambert, Que., and St. Catharines, Ont. It maintains and operates the Canadian section of the 27-foot deep waterway between the Port of Montreal and Lake Erie, comprising the Montreal—Lake Ontario Section and the Welland Canal. The section of the Seaway in the United States is operated by the Saint Lawrence Seaway Development Corporation. Toll revenues derived from the operation of the Montreal—Lake Ontario Section are divided between the two Seaway entities in accordance with an agreement approved by the Governments of Canada and the United States.

The Authority also operates non-toll canals at Lachine, Que., Cornwall, Ont., and Sault Ste. Marie, Ont., the net operating cost being provided for by annual parliamentary appropriations.

The Crown's equity in the Authority at December 31, 1970 was $652,837,000 comprising capital assets transferred from the Department of Transport (Welland Canal), $130,255,000, loans, $510,050,000, deferred interest, $84,240,000, and accumulated deficit, $71,708,000.

The operating results of the Authority in respect of the Montreal—Lake Ontario and of the Welland Sections of the Seaway for the past two years are as follows:

	Year ended December 31	
	1970	1969
Income—		
Tolls	$ 22,143,000	$ 18,139,000
The Seaway International Bridge Corporation, Ltd.—net income	204,000	216,000
Other	2,353,000	2,246,000
	24,700,000	20,601,000
Expense—		
Operation and maintenance	13,198,000	11,930,000
Headquarters administration	3,017,000	2,756,000
Construction branch	2,326,000	2,327,000
Engineering	2,121,000	2,759,000
Regional administration	1,867,000	1,848,000
	22,529,000	21,620,000

	Year ended December 31	
	1970	1969
Portion allocated to:		
Construction	$ 2,757,000	$ 3,506,000
Non-toll canals	408,000	570,000
	3,165,000	4,076,000
	19,364,000	17,544,000
Net operating income before providing for interest and for replacement of machinery and equipment	5,336,000	3,057,000
Interest on loans from Canada	19,825,000	18,599,000
Provision for replacement of machinery and equipment	1,042,000	973,000
Interest on claims	3,000	46,000
	20,870,000	19,618,000
Net loss	$ 15,534,000	$ 16,561,000

The following summary shows the operating results of the Montreal—Lake Ontario Section for the year compared with the preceding year together with the cumulative operating results from the opening of the Seaway in 1959:

	Year ended December 31		Cumulative to December 31
	1970	1969	1970
Income—			
Tolls	$ 18,599,000	$ 15,636,000	$ 157,031,000
Other income	1,358,000	1,212,000	8,262,000
	19,957,000	16,848,000	165,293,000
Expense of operation, maintenance and administration	7,481,000	6,715,000	47,818,000
Net operating income	12,476,000	10,133,000	117,475,000
Interest on loans	18,800,000	17,743,000	177,899,000
Interest on claims	3,000	46,000	494,000
Provision for replacement of machinery and equipment	1,042,000	973,000	10,610,000
Assets written off	—	—	180,000
	19,845,000	18,762,000	189,183,000
Deficit	$ 7,369,000	$ 8,629,000	$ 71,708,000

The increase of $2,963,000 in tolls is due to an increase in Seaway tonnage to 51 million tons from 41 million tons in 1969.

Section 17 of the St. Lawrence Seaway Authority Act requires that the tolls provide revenue sufficient to defray the cost of operations including provision for repayment of the capital indebtedness. The foregoing summary of operating results

shows that since the opening of the Seaway in 1959 a deficit of $72 million has accumulated without any provision for repayment of the capital indebtedness of $336 million which the Act requires be met from earnings by December 31, 2009. If this obligation is to be met, toll revenue over the 39 years from 1971 to 2009 must average over $32 million annually on the basis of 1970 costs. The toll revenue for 1970 was $13 million short of meeting this requirement.

The operating results of the Welland Section of the Seaway for the past two years are as follows:

	Year ended December 31	
	1970	1969
Expense of operation, maintenance and administration	$ 11,884,000	$ 10,829,000
Income—		
Lockage fees	3,545,000	2,502,000
Rentals, wharfage, etc.	1,198,000	1,251,000
	4,743,000	3,753,000
Net operating loss	7,141,000	7,076,000
Interest on loans	1,024,000	856,000
Deficit provided for by Transport Vote 85 (Vote 90 in 1969–70)	$ 8,165,000	$ 7,932,000

With the opening of the Seaway in 1959 the operation and management of the Welland Canal became a responsibility of The St. Lawrence Seaway Authority. Tolls were suspended in 1962 and the annual operating deficits since 1959, totalling $78,610,000 to December 31, 1970, have been recovered from parliamentary appropriations. In 1967 a lockage fee of $20 a lock was introduced increasing by $20 a year to reach $100 a lock in 1971.

An agreement made in 1959 between the Authority and the Saint Lawrence Seaway Development Corporation established a joint tariff of tolls for the Seaway. The agreement provided that the division of tolls from the operation of the Montreal—Lake Ontario Section would be initially 71% to the Authority and 29% to the Corporation, and that these percentages would be adjusted from time to time so that the Authority and the Corporation would receive a portion of the tolls in the ratio of their respective annual charges for operation, maintenance, interest and retirement of debt to their combined annual charges in respect of that portion of the Seaway.

In March 1967 the Governments of Canada and the United States agreed to continue the existing schedule of tolls for the Montreal—Lake Ontario Section, to divide tolls on the basis of 73% to the Authority and 27% to the Corporation, and that the sufficiency and division of tolls might, at the request of either entity, be reviewed at the end of the 1970 navigation season, with a view to any necessary adjustment in accordance with the provisions of the 1959 agreement. Neither of the Seaway entities requested such a review.

The original conditions under which loans were made to the Authority for the Montreal—Lake Ontario Section of the Seaway under section 28 of the Act required the payment of interest only, in the first three full years of operation (through the year ended December 31, 1962), and thereafter payment of annual amounts sufficient to amortize all loans and interest thereon over a period of 47 years (or by December 31, 2009). The terms of the Authority's financing arrangements were amended in 1961, 1963, 1964, 1967 and again in 1968 and now provide that loans in respect of the Montreal—Lake Ontario Section of the Seaway, together with interest, are to be repaid in such amounts each year as the cumulative net profits of the Montreal—Lake Ontario Section, before amortization of the loan principal, will permit. Unpaid interest bears interest until paid and the principal and interest are to be fully paid on or before December 31, 2009. At December 31, 1970, loans in respect of the Montreal—Lake Ontario Section amounted to $335,600,000 and unpaid interest to $73,657,000.

For the Welland Section, loans to finance improvements totalled $174,450,000 of which $72,500,000 is interest-free and the balance of $101,950,000 provided since September 22, 1966 bears interest, of which $10,583,000 was outstanding at December 31, 1970. Interest on all loans subsequent to September 22, 1966 is to be accrued in the accounts but is not to be paid until December 31 of the year in which the Minister of Transport determines that each modernization project is completed, at which time the terms of principal repayment for the loans are to be determined by the Governor in Council.

The costs of operating and maintaining the canals and works under the administration of the Authority are defined in section 17 of the St. Lawrence Seaway Authority Act as including all operating costs of the Authority and such reserves as may be approved by the Minister, together with loan interest and amortization of loan principal. The Authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance cost and that the amortization over the fifty-year period of the principal of the amounts borrowed together with the interest meets the requirements of this section. Accordingly, no provision for depreciation has been included in the costs of the year. It is important to note, however, that no amortization of principal has been made up to December 31, 1970, and while interest has been accrued annually, payment of a substantial portion thereof has been deferred.

As in previous years, provision was made for replacement of lock, bridge and building machinery and equipment of the Montreal—Lake Ontario Section. The provision for 1970 amounted to $1,042,000 and the accumulated provision to December 31, 1970 amounted to $10,162,000. As in prior years, no provision was made in 1970 for replacement of machinery and equipment for the Welland Section.

The following matters have been outstanding for some years:

(a) In 1956 an arrangement was made between the Authority and three municipalities whereby the municipalities would contribute $250,000 towards the cost of extending the collector sewer

which was then being constructed as the main part of the Authority's South Shore remedial works. In 1961 two of the three municipalities passed official resolutions to accept the 1956 proposal and to share in the $250,000 contribution. The sewer extension was completed in 1963 at a cost of $480,000 and the municipalities were billed in February 1964 for their contribution. No payment has been received by the Authority from the municipalities, two of which are said to be under trusteeship of the Province of Quebec because of financial difficulties. During 1966 the Department of Justice, on behalf of the Authority, appointed an agent to take legal proceedings. On September 18, 1970 details of the matter were conveyed to the Federal-Provincial Relations Secretariat of the Privy Council Office.

(b) The Beauharnois Canal, constructed by the Beauharnois Light, Heat and Power Company, was conveyed to the Crown in 1932 with the Company, which has since been taken over by the Quebec Hydro-Electric Commission, retaining the responsibility for certain operating and maintenance expenses of the Canal. The Canal became part of the St. Lawrence Seaway in 1959. The Authority has not been reimbursed its maintenance expenses on the Canal since 1962 as the Commission takes the stand that it is not responsible for these costs because of provincial legislation passed in 1962 which dissolved the Beauharnois Light, Heat and Power Company. Settlement of the issue continues to rest with the federal and provincial governments.

The following table summarizes for the past two years the expense, income and capital expenditure relating to the non-toll canals operated or administered by the Authority:

	Year ended December 31	
	1970	1969
Expense—		
Operation and maintenance	$ 1,480,000	$ 1,746,000
Grants in lieu of municipal taxes	519,000	554,000
Portion of Authority's administration and engineering expenses applicable to non-toll canals	408,000	570,000
	2,407,000	2,870,000
Income from rentals, wharfage, etc.	579,000	667,000
Operating deficit	1,828,000	2,203,000
Capital expenditure	7,000	22,000
Operating deficit and capital expenditure	$ 1,835,000	$ 2,225,000
Operating deficit and capital expenditure provided for by—		
Transport Vote 95 of 1970-71	$ 1,417,000	$ —
Transport Vote 85 of 1969-70	418,000	1,796,000
Transport Vote 85 of 1968-69	—	429,000
	$ 1,835,000	$ 2,225,000

315. *The Seaway International Bridge Corporation, Ltd.* This Corporation was incorporated in 1962 under the Canada Corporations Act, *R.S., c. C-32,* pursuant to section 27(1) of the St. Lawrence Seaway Authority Act, *R.S., c. S-1,* as a subsidiary of The St. Lawrence Seaway Authority to operate and manage the international toll bridge between Cornwall, Ont., and Rooseveltown, N.Y. The bridge is jointly owned by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation). The Authority's

interest is represented by capital stock of $8,000 and the Corporation's interest by debentures of $8,000. Each entity has four representatives on the Board of Directors.

Under the terms of the bridge operating agreement between the Authority and the Corporation, the annual net income from operation of the bridge system is to be first applied towards the amortization of the cost, including interest, of the North Channel Bridge and the remainder, if any, divided equally between the Seaway entities.

The following is a summary of the operations of The Seaway International Bridge Corporation, Ltd. for the past two years:

	Year ended December 31	
	1970	1969
Income—		
Bridge tolls	$ 492,000	$ 483,000
Other	20,000	21,000
	512,000	504,000
Expense—		
Salaries, wages and employee benefits	230,000	211,000
Grant in lieu of municipal taxes	16,000	17,000
Maintenance materials and services	16,000	16,000
Rental of toll collection machines	13,000	13,000
Advertising	12,000	12,000
Other	21,000	19,000
	308,000	288,000
Net income—transferred to The St. Lawrence Seaway Authority	$ 204,000	$ 216,000

The amount of $204,000 was transferred to The St. Lawrence Seaway Authority to be applied towards the amortization of the cost, including interest, of the North Channel Bridge. As this amount was insufficient to cover even the interest charges of $536,000 for the year, the unamortized balance increased by $312,000 from $10,700,000 at December 31, 1969 to $11,012,000 at December 31, 1970.

Other Crown Corporations

316. The paragraphs that follow deal with the several Crown corporations which are not audited by the Auditor General. In each case an introductory comment describes briefly the origin of the corporation and the nature of its activity followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the year in comparison with the preceding year, and any other matter that might be of interest to the House of Commons.

317. *Air Canada.* This Corporation was established by the Air Canada Act, *R.S., c. A-11,* as a wholly-owned subsidiary of the Canadian National Railway Company. The Board of Directors consists of nine persons, four of whom are appointed by the Governor in Council and five elected by the shareholders. The

latter directors are also directors of the Canadian National Railway Company. The head office of the Corporation is in Montreal.

The Corporation is authorized to establish, operate and maintain air lines or regular services of aircraft of all kinds, to carry on the business of transporting mails, passengers and goods by air, and to enter into contracts for the transport of mails, passengers and goods by any means and to carry on the business of warehousing goods, wares and merchandise of every kind and description.

Canada finances Air Canada with advances to enable the Corporation to meet current operating and income charges, and with loans authorized by annual Financing and Guarantee Acts.

The Crown's equity in Air Canada through its parent company and by direct investment at December 31, 1970 was $592,142,000 represented by: notes and debentures, $547,602,000; interest and dividends payable, $6,851,000; share capital, $5,000,000; and retained earnings, $32,689,000.

The following is the Statement of Income and Retained Earnings for the past two years as reported in the Corporation's financial statements:

	Year ended December 31	
	1970	1969
Operating Revenues—		
Passenger	$ 387,486,000	$ 332,727,000
Freight and express	52,506,000	39,864,000
Mail	16,229,000	16,046,000
Charter	15,686,000	8,837,000
Incidental services—net	6,352,000	7,178,000
	478,259,000	404,652,000
Operating Expenses—		
Flying operations	101,763,000	88,060,000
Maintenance	82,813,000	68,733,000
Passenger service	50,665,000	41,412,000
Aircraft and traffic servicing	75,763,000	64,071,000
Sales and promotion	75,384,000	63,344,000
General and administrative	23,781,000	18,135,000
Depreciation and obsolescence	47,227,000	42,433,000
	457,396,000	386,188,000
Operating Income	20,863,000	18,464,000
Non-Operating Expenses—		
Interest on debt	31,920,000	25,246,000
Interest capitalized	(5,728,000)	(4,704,000)
Gain on disposal of property and equipment	(122,000)	(2,162,000)
Non-operating income—net	(3,063,000)	(3,009,000)
	23,007,000	15,371,000
	(2,144,000)	3,093,000
Deferred Income Taxes	(1,072,000)	1,545,000
Net (Loss) Income	(1,072,000)	1,548,000

	Year ended December 31	
	1970	1969
Retained Earnings—		
Balance at beginning of year	$ 27,725,000	$ 19,614,000
Adjustment of deferred income taxes	6,236,000	300,000
Transferred from insurance reserve	—	6,463,000
Dividend	(200,000)	(200,000)
	$ 32,689,000	$ 27,725,000

Air Canada employees numbered 17,447 at December 31, 1970 compared with 17,138 the year before.

The Act provides that the accounts and financial transactions of the Corporation shall be audited by the auditor appointed by Parliament to audit the accounts of Canadian National Railways.

318. *Bank of Canada.* The Bank, established in 1934 by the Bank of Canada Act, *R.S., c. B-2,* is under the management of a Board of Directors composed of a governor, a deputy governor and twelve directors. The head office is in Ottawa and agencies are maintained in nine cities across Canada.

The Bank's statutory powers include the sole right to issue notes for circulation in Canada and it may: buy and sell gold, silver, nickel and bronze coin or any other coin, and gold and silver bullion; buy and sell securities issued or guaranteed by Canada or any province; make loans or advances to chartered banks; make loans or advances to the Government of Canada or to the government of any province; accept deposits, which shall not bear interest, from the Government of Canada, from the government of any province or from chartered banks; and open accounts in a central bank in any other country and accept deposits from central banks in other countries.

As required by the Act, the Bank has established a rest fund by allocations from surplus. This fund has reached its statutory limit of $25 million and together with the paid-up capital of $5 million represents Canada's equity in the Bank at December 31, 1970. At the same date Canada had $260 million on deposit with the Bank.

The following is a summary of the income and expense of the Bank for the past two years:

	Year ended December 31	
	1970	1969
Income—		
On investments, including deposits	$ 274,146,000	$ 247,223,000
Other	203,000	227,000
	274,349,000	247,450,000

	Year ended December 31	
	1970	1969
Expense—		
Salaries and employee benefits	$ 10,000,000	$ 8,083,000
Bank note costs	7,611,000	5,043,000
Taxes—municipal and business	1,475,000	1,377,000
Maintenance of premises and equipment	1,148,000	979,000
Data processing and computer costs	486,000	425,000
Travel and staff transfers	344,000	247,000
Guards and security	278,000	265,000
Postage and express	274,000	269,000
Telephones and telegrams	268,000	246,000
Printing and stationery	262,000	265,000
Printing and other costs of publications	157,000	125,000
Auditors' fees and expenses	105,000	104,000
Other	472,000	372,000
	22,880,000	17,800,000
Depreciation of buildings and equipment	1,176,000	915,000
	24,056,000	18,715,000
Net income, paid to the Receiver General	$ 250,293,000	$ 228,735,000

During 1970 the number of employees averaged 1,106 compared with 1,065 in 1969. The net book value of land, buildings and equipment increased by $4,428,000.

The Act requires the Governor in Council to appoint annually two auditors to audit the affairs of the Bank.

319. *Canadian National Railways.* This name is a collective or descriptive designation of all lines of railway or railway works comprising the Canadian National Railway Company, the Canadian Government Railways and sundry other companies.

The Canadian National Railway Company was incorporated in 1919 by the Canadian National Railways Act, *R.S., c. C-10,* and is empowered

(a) to accept the management and operation of any lines of railway or parts thereof, and any property or works of whatever description, or interests therein, and any powers, rights or privileges over or with respect to any railways, properties or works, or interests therein, that may be vested in or owned, controlled or occupied by Her Majesty;

(b) with the approval of the Governor in Council, to construct, maintain and operate railway lines, branches and extensions if the line does not exceed twenty miles in length and in any other case, if Parliament has, in respect of the construction thereof, authorized the necessary expenditure;

(c) to carry on all business that is customarily carried on by express companies, including the handling of express money orders or other methods of transmitting or handling money, securities, or other articles of value;

(d) to establish, construct or acquire by purchase, lease or otherwise and to maintain and operate telecommunication facilities, systems and services in Canada and elsewhere;

(e) in conjunction with or substitution for the rail services under its control, to buy, sell, lease, or operate motor vehicles of all kinds for the carriage of traffic;

(f) to construct, purchase, lease or otherwise acquire, charter, own, maintain, operate and manage vessels, motorships, steamships, tugs, car ferries, etc., and to sell or otherwise dispose thereof and shall be entitled to charge fares and freight for traffic carried on board such vessels; and

(g) to purchase, lease or otherwise acquire or provide, hold, use, enjoy and operate such lands, water lots, wharfs, warehouses, elevators, hotels, etc., as may be necessary for its purposes and to sell or otherwise dispose thereof.

The direction and control of the Company and its undertakings are vested in a Board of Directors composed of twelve members, each of whom is appointed by the Governor in Council for a term not exceeding three years. The head office of the Company is in Montreal.

Canada provides financial assistance to the Company in a number of ways:

LOANS TO REDEEM OUTSTANDING SECURITIES AT MATURITY. Under provisions of the Canadian National Railways Refunding Act, 1955, *1955, c.31*, the Minister of Finance may make temporary loans for debt redemption. The loans for this purpose at March 31, 1971 totalled $541,100,000.

LOANS FOR CAPITAL EXPENDITURE. Annual Financing and Guarantee Acts authorize the Minister of Finance to make loans for specific capital purposes. No such loans were made in 1970-71, the balance outstanding at March 31, 1971 being $197,371,000.

LOANS TO ACQUIRE SECURITIES ON THE OPEN MARKET. The Canadian National Railways Financing and Guarantee Act, 1941, *1940-41, c.12*, and the Canadian National Railways Financing and Guarantee Act, 1942, *1942-43, c.22*, authorize the Minister of Finance to make loans for the purpose of acquiring securities of the Company on the open market. The total amount advanced for this purpose at March 31, 1971 was $40,817,000.

ADVANCES RE ANNUAL DEFICITS. The annual Financing and Guarantee Acts authorize the Minister of Finance to advance sums required to meet current charges. If the operations of the National System result in a deficit, the deficit is provided for by a parliamentary appropriation. The deficit for the year ended December 31, 1970 amounted to $29,709,000 which was provided for by Transport Vote 50, Appropriation Act No. 3, 1970, *1969-70, c.46*. At March 31, 1971, $20 million had been advanced with respect to the anticipated deficit on 1971 operations.

WORKING CAPITAL—CANADIAN GOVERNMENT RAILWAYS. In 1937 the Canadian National Railways Capital Revision Act, *R.S., 1952, c.311*, provided for the adjustment of certain differences between the Public Accounts of Canada and the accounts of the National Railway System by consolidation of various amounts in the Public Accounts into the Canadian Government Railways Working Capital Account. There is no interest charged on this advance which has remained practically unchanged since 1937 and which amounted at March 31, 1971 to $16,984,000.

MORATORIUM OF INTEREST ON $100,000,000. The Canadian National Railways Capital Revision Act suspended interest payments for ten years on a $100 million debenture due January 1, 1972. Annual Financing and Guarantee Acts have extended the interest moratorium each year, the last extension, covering the period to December 31, 1971, being provided by the Canadian National Railways Financing and Guarantee Act, 1970, *1970-71-72, c.17*.

In addition to the loans, advances and other financing arrangements mentioned previously, Canada's equity in the Canadian National Railways at March 31, 1971 includes the following:

$1,204,060,000 in 4% preferred stock of the Canadian National Railway Company acquired under section 6 of the Canadian National Railways Capital Revision Act which has

been continued since 1960 by the annual Financing and Guarantee Acts and which requires the Minister of Finance to purchase annually additional stock, at a par value of $1 per share, equal to 3% of the gross revenue of the National System in the year;

$428,397,000 in capital investment in the Canadian Government Railways; and

$359,963,000, the value assigned to 6,000,000 shares of no par value capital stock of the Canadian National Railway Company.

The Crown's equity in the Canadian National Railways at December 31, 1970 as shown by the Company's published financial statements amounted to $2,837,813,000 and comprised:

Government of Canada loans and debentures	$ 853,389,000
No par value capital stock of Canadian National Railway Company	359,963,000
4% preferred stock of Canadian National Railway Company	1,196,064,000
Capital investment in the Canadian Government Railways	428,397,000
	$ 2,837,813,000

The following is the Consolidated Income Statement of Canadian National Railways for the past two years:

	Year ended December 31	
	1970	1969
Railway Operating Revenues—		
Carload freight services	$ 774,161,000	$ 745,564,000
Express services	115,955,000	104,840,000
Passenger services	69,659,000	75,262,000
All other services	43,583,000	41,571,000
Payments related to National Transportation Act	38,995,000	47,020,000
Total Railway Operating Revenues	1,042,353,000	1,014,257,000
Railway Operating Expenses—		
Road maintenance	169,870,000	167,055,000
Equipment maintenance	204,386,000	195,856,000
Transportation	422,794,000	407,136,000
Sales	27,442,000	25,913,000
Miscellaneous operations	53,634,000	53,016,000
General	85,839,000	81,931,000
Taxes	44,852,000	43,356,000
Equipment and joint facility rents	18,816,000	21,602,000
Total Railway Operating Expenses	1,027,633,000	995,865,000
Net Railway Operating Income	14,720,000	18,392,000
Other Income—		
Net income from:		
Telecommunications department	15,358,000	12,355,000
Hotels	3,011,000	2,904,000
Separately operated trucking companies	1,644,000	1,639,000
Other sources	11,059,000	14,269,000
Total Other Income	31,072,000	31,167,000
Net Income before Interest on Debt	45,792,000	49,559,000

	Year ended December 31 1970	1969
Interest charges—		
Total interest on debt	$ 97,019,000	$ 95,728,000
Less: Interest received on loans to Air Canada	21,518,000	21,523,000
Net Interest on Debt	75,501,000	74,205,000
Deficit	$ 29,709,000	$ 24,646,000

Canadian National Railways employees numbered 82,442 at December 31, 1970 compared with 84,388 the year before.

Section 38 of the Canadian National Railways Act provides that a continuous audit of the accounts of National Railways shall be made by independent auditors appointed annually by Parliament who shall annually report to Parliament in respect of their audit.

320. *The Canadian National Railways Securities Trust.* This Corporation was established in 1937 by the Canadian National Railways Capital Revision Act, *R.S. 1952, c.311,* to take over and hold certain indebtedness of the Canadian National Railway System to the Crown, together with the underlying collateral securities of the original debtor corporations. The Board of Trustees is composed of the twelve directors of the Canadian National Railway Company. The head office of the Securities Trust is in Montreal.

The capital stock of the Securities Trust consists of five million shares of no par value, with an initial stated value of $270,037,000 which represented the total of loans made to the National Railway System for capital purposes prior to January 1, 1937. The Act authorized the Minister of Finance to exchange the stock of the Securities Trust for an equal number of no par value shares of the National Company with a stated value of $378,518,000. The retirement of steam locomotives in the years 1956 to 1960 inclusive resulted in a capital loss of $36,555,000 which reduced the stated value of the capital stock to $341,963,000.

There were no transactions during the year and the balance sheet as at December 31, 1970 is as follows:

ASSETS		LIABILITIES	
Claims for principal of loans	$ 643,860,000	Capital stock owned by the Canadian National Railway Company—5,000,000 shares of no par value	$ 341,963,000
Claims for interest on loans	574,782,000		
Transactions of Canadian National Railway System subsequent to January 1, 1937 affecting the book value of the capital stock of the Trust	71,926,000	Amount by which the book value of claims and interest thereon exceeded the initial stated value as of January 1, 1937	948,605,000
	$ 1,290,568,000		$ 1,290,568,000

The audit of the accounts of The Canadian National Railways Securities Trust is carried out by the auditors appointed annually by Parliament to make a continuous audit of National Railways.

321. *The Canadian Wheat Board.* The Board, consisting of not less than three nor more than five commissioners, was incorporated in 1935 under the Canadian Wheat Board Act, *R.S., c. C-12,* with the object of marketing in an orderly manner, in interprovincial and export trade, grain grown in Canada. The Board was originally established as a marketing organization to purchase wheat from producers on a voluntary basis and to engage in the necessary marketing activities to dispose of wheat delivered to it. However, since September 27, 1943, the Board has been the sole marketing agency for Western Canadian wheat under authorization of a regulation approved by the Governor in Council. Similarly, since August 1, 1949, the Board has been the sole marketing agency for oats and barley as well as wheat produced in Western Canada for commercial markets.

The Board's powers include authority to buy, take delivery of, store, transfer, sell, ship or otherwise dispose of grain. Only grain produced in the designated area, which includes Manitoba, Saskatchewan, Alberta and the eastern part of British Columbia, and the western edge of Ontario, is purchased by the Board which controls the delivery of grain into elevators and railway cars in that area as well as the interprovincial movement and export of wheat, oats and barley generally. The head office of the Board is in Winnipeg and offices are maintained in Calgary, Montreal, Vancouver, London and Tokyo.

Producers are paid a fixed initial price for grains delivered, with final payments made after recovery of all outlays. Losses sustained are to be recouped from moneys provided by Parliament.

To finance its operations the Board, under the provisions of the Act, is authorized to enter into ordinary commercial banking arrangements on its own credit and to borrow money on the security of grains held. As at July 31, 1970, the year-end of the Board, loans from banks, which are guaranteed by the Government of Canada, amounted to $434,072,000.

Under the Prairie Grain Advance Payments Act, *R.S., c. P-18,* cash payments during a crop year can be made by the Board to prairie farmers, up to $3,000 each for wheat, oats and barley in advance of delivery. The Prairie Grain Provisional Payments Act, 1969-70, *1969-70, c.10,* authorized provisional payments against unthreshed grains up to $3,000 per producer. The aggregate amount of payments made to a producer under the two Acts was not to exceed $6,000 during the 1969-70 crop year. On July 31, 1970, $141,938,000 in respect of advance payments and $812,000 in respect of provisional payments remained to be recovered by the Board. Pursuant to the provisions of both Acts, Canada has to reimburse the Board interest charges paid or payable in respect of moneys borrowed to make these payments and also for amounts of advance and provisional payments outstanding at the time of

default to the extent that the Board has not been reimbursed after default. During the crop year 1969-70 interest of $27,447,000, and $65,000 to cover payments in default, were paid by Canada to the Board leaving a balance of $1,080,000 outstanding at July 31, 1970.

Also under the provision of section 3 of the Temporary Wheat Reserves Act, *1956, c.2,* $15,300,000 was paid to the Board by Canada representing "an amount equal to the portion of the said [Board's] stocks that exceeds one hundred and seventy-eight million bushels at the commencement of that crop year . . .".

A summary of the operations of the 1969-70 Pool Accounts for wheat, oats and barley in comparison with the operations in 1968-69 follows:

	Year ended July 31	
	1970	1969
Wheat—		
Completed sales	$ 105,424,000	$ 277,276,000
Uncompleted sales at contract values	227,658,000	69,795,000
Stocks of wheat in store at year-end, at cost	478,498,000	736,948,000
	811,580,000	1,084,019,000
Less:		
Wheat acquired	786,371,000	1,066,761,000
Carrying costs, interest, administrative and general expenses	16,766,000	35,443,000
	803,137,000	1,102,204,000
Credit (debit) balance in Pool Account	$ 8,443,000	$ (18,185,000)
Oats—		
Sales	$ 21,172,000	$ 8,239,000
Uncompleted sales at contract values	—	1,297,000
Stocks of oats in store at year-end, at cost	—	16,144,000
	21,172,000	25,680,000
Less:		
Oats acquired	17,687,000	24,034,000
Carrying costs, interest, administrative and general expenses	1,753,000	2,450,000
	19,440,000	26,484,000
Surplus on operations—1969–70 Pool Account	$ 1,732,000	—
Debit balance in 1968–69 Pool Account	—	$ (804,000)

	Year ended July 31 1970	1969
Barley—		
Sales	$ 154,565,000	$ 49,299,000
Uncompleted sales at contract values	—	7,195,000
Stocks of barley in store at year-end, at cost	—	42,062,000
	154,565,000	98,556,000
Less:		
Barley acquired	142,775,000	99,119,000
Carrying costs, interest, administrative and general expenses	7,449,000	5,145,000
	150,224,000	104,264,000
Surplus on operations—1969–70 Pool Account	$ 4,341,000	—
Debit balance in 1968–69 Pool Account	—	$ (5,708,000)

The number of employees averaged 579 in 1969-70 compared with 554 in 1968-69.

The Act provides for the appointment by the Board with the approval of the Governor in Council of a responsible firm of chartered accountants for the purpose of auditing accounts and records and certifying reports of the Board.

322. *Cape Breton Development Corporation.* The Cape Breton Development Corporation was established on October 1, 1967 by the Cape Breton Development Corporation Act, *R.S., c. C-13*, for the purpose of broadening the base of the economy of Cape Breton Island. In meeting its responsibilities, the Corporation is to promote and assist the financing and development of industry on the Island to provide employment outside the coal producing industry. Related steps are the acquisition of the interests of the major coal producer in the Sydney coalfield and reorganization and operation of the mines with a view to the rationalization of their coal production. These in turn are to be followed by the progressive withdrawal of the Corporation from such production in accordance with a plan which is to take into account progress in providing employment outside the coal producing industry. The head office of the Corporation is in Sydney, N.S.

The Act provides for the payment of working capital advances and capital and operating grants to the Corporation by the Minister of Finance on the requisition of the Corporation and the Minister of Regional Economic Expansion. In addition, funds for operating purposes have been paid to the Corporation under parliamentary appropriations.

The Crown's equity in the Corporation at December 31, 1970 was $15,281,000 comprising loans, $4,500,000, unused fixed asset grants for the Coal Division, $1,976,000, unused operating grants, $788,000, capital asset grants for the Industrial Development Division, $12,795,000, and losses of $4,778,000 to be recovered by means of additional operating grants.

During the year receipts from Canada, other than working capital advances, were:

Statutory grants—	
Capital	$ 9,900,000
Operating	1,640,000
	11,540,000
Regional Economic Expansion Vote 35—	
Amounts to be applied in payment of the 1970 operating losses of coal mining and related works and undertakings, administrative expenses of the Coal Division, and grants in lieu of taxes to municipalities	25,778,000
	$ 37,318,000

In last year's Report (paragraph 158) we referred to the acquisition on March 30, 1968, under authority of section 9 of the Act, of lands and personal property located on Cape Breton Island, and interests in land and personal property located under adjacent waters that constituted or formed part of the works and undertakings operated or carried on by Dominion Coal Company, Limited, Nova Scotia Steel and Coal Company, Limited, The Dominion Rolling Stock Company Limited, Sydney and Louisburg Railway Company, The Scotia Rolling Stock Company Limited and The Cumberland Railway Company. We pointed out that the notes forming an integral part of the financial statements of the Corporation's Coal Division for the year ended December 31, 1969 disclosed that the cost of acquisition, if any, to be paid by the Minister of Finance out of the Consolidated Revenue Fund, under authority of section 19 of the Act, had not yet been determined and no payments had been made. A similar note formed an integral part of the financial statements for the year ended December 31, 1970 and stated that an offer of settlement in the amount of $11,000,000 filed in the Exchequer Court of Canada had not been accepted and settlement negotiations were in process.

Under an amendment, *R.S. (1st Supp.), c.7,* to section 23 of the Act, the Corporation, with the approval of the Governor in Council, on the recommendation of the Ministers of Regional Economic Expansion and Finance, may guarantee repayment of moneys borrowed by a company or person and the payment of all or any interest thereon where the Corporation considers that the related activities are likely to make a substantial contribution to the industrial development of Cape Breton Island. In March 1971 the Governor in Council authorized the Corporation to guarantee a $30,000,000 bank loan made to a non-Canadian company to expand its operations on Cape Breton Island.

The Corporation had 4,521 employees at December 31, 1970 compared with 4,635 the year before.

The Act makes no provision for the appointment of an auditor and the Governor in Council, in complying with section 67 of the Financial Administration Act, has designated a firm of chartered accountants to audit the accounts of the Corporation.

323. *Central Mortgage and Housing Corporation.* This Corporation, established in 1945 by the Central Mortgage and Housing Corporation Act, *R.S., c. C-16,* is charged with the administration of the National Housing Act, *R.S., c. N-10,* to promote the construction of new houses, the repair and modernization of existing houses, and generally the improvement of housing and living conditions. The head office is in Ottawa, regional offices are maintained in Halifax, Montreal, Toronto, Winnipeg and Vancouver, and there are sixty local offices throughout Canada.

The Corporation is managed by a Board of Directors, consisting of a president, a vice-president and eight other members, and is empowered by the National Housing Act:

To insure mortgage loans made by banks, life insurance, trust and loan companies and other approved lenders on new and existing housing.

To enter into contracts with builders to guarantee an annual return of rentals from housing projects for a period not exceeding thirty years after completion.

To make mortgage loans for construction, purchase or improvement of low-rental housing projects.

To make mortgage loans to borrowers engaged in the mining, lumbering, logging or fishing industry for construction of low or moderate-cost housing projects in areas adjacent to the operations of the borrowers.

To make contributions to provinces and municipalities for the renewal of substandard areas in accordance with approved plans.

To undertake jointly with the government of any province the acquisition and development of land for housing purposes; and the construction of housing projects or housing accommodation of hostel or dormitory type for sale or rent.

To make loans to provinces, municipalities or public housing agencies to acquire and service land for public or general housing purposes and the construction of public housing projects.

To make contributions to provinces, municipalities and public housing agencies to assist in providing housing accommodation to individuals or families of low income at rentals less than the cost of amortizing and operating the public housing project.

To make loans to provinces, municipalities, hospitals, school boards, universities, co-operative associations and charitable institutions for the construction, acquisition or improvement of student housing projects.

To make loans to provinces, municipalities and municipal sewerage corporations for the construction or expansion of sewage treatment projects to assist in the elimination or prevention of water and soil pollution and to forgive 25% of the principal and interest of the loan where the project is completed before March 31, 1975 or where the project is not completed before March 31, 1975 to forgive payment by the borrower of 25% of the amount that has been advanced by that date.

To purchase, lease and otherwise acquire, and to sell, lease or otherwise dispose of, land or housing projects on its own behalf or on behalf of the Federal Government.

To make mortgage loans to persons unable to obtain loans from an approved lender for construction of a house or housing project.

To enter into contracts with builders to encourage the construction of houses to be sold to prospective home owners.

To attain the Corporation's objects, the National Housing Act permits the Corporation, upon terms and conditions approved by the Governor in Council, to borrow from Canada amounts not exceeding $8 billion. In addition, Privy Council Vote L15, Appropriation Act No. 3, 1970, *1969-70, c. 46,* authorized advances of $122 million to the Corporation for the calendar year 1970 in respect of: housing and land development projects undertaken jointly with Governments of the Provinces, loans to municipalities for the construction or expansion of sewage projects, loans made to assist in the implementation of an urban renewal scheme, and for the acquisition, development, construction or improvement of land and buildings. Privy Council Vote 10 provided $53,700,000 to reimburse the Corporation for the calendar year 1970: for expenditures on research and community planning, for the amounts of loans for sewage treatment projects forgiven to a province, municipality or municipal sewerage corporation, for contributions made for urban renewal schemes, and for losses resulting from the operation of public housing projects.

The Crown's equity in the Corporation, $4,940,000,000, at December 31, 1970 comprised: capital stock, $25,000,000; general reserve, $5,000,000; loans to the Corporation, $4,898,000,000; and net income for the year and profit on sale of assets, transferred to the credit of the Receiver General subsequent to year-end, $12,000,000. In addition, the Corporation, as required by the National Housing Act, has established three special funds.

MORTGAGE INSURANCE FUND. Mortgage loans, made by banks, life insurance companies, trust companies and other approved lenders, may be insured by the Corporation. In cases where loans are insured, insurance fees, varying from 7/8% to 1 1/4% on the amount of the loans, are collected from borrowers and credited to the Fund. The Corporation has statutory authority to invest moneys held by the Fund in obligations of, or guaranteed by, Canada. Credits to the Fund during the year ended December 31, 1970 comprised: income from securities, including net loss on realization, $11,267,000; insurance fees, $10,711,000; income from mortgages, $4,871,000; and real estate acquired on claims, $2,704,000. Where the holder of an insured mortgage loan acquires title to the mortgaged property by foreclosure, title may be conveyed to the Corporation. In such a case, the Corporation pays the lender the principal owing on the mortgage, arrears of interest and expense incurred. The Fund is charged with the amounts involved. During the year, the Fund was charged with: claims paid and legal expense, $2,704,000; net loss on operation and disposal of real estate, $103,000; provision for revaluation of real estate, $229,000; and administrative expense, $480,000. At December 31, 1970, there was a balance of $278,869,000 in the Mortgage Insurance Fund.

HOME IMPROVEMENT LOAN INSURANCE FUND. The Act stipulates that all home improvement loans made under it shall be guaranteed by the Corporation and all lenders are required to collect from the borrowers and remit to the Corporation an insurance fee of 1% of the amount of the loan. The Corporation is permitted to invest any or part of the Fund in obligations of, or guaranteed by, Canada. During the year, the Fund was credited with: insurance fees, $168,000; income from securities, including net profit on realization, $183,000; income from mortgages, $11,000; and recoveries on claims paid, $201,000. The Fund was charged with claims paid and legal expense, $283,000, net loss on operation and disposal of real estate, $10,000, and administrative expense, $113,000. At December 31, 1970, the balance in the Fund was $3,722,000.

RENTAL GUARANTEE FUND. Under the Act the Corporation may guarantee an annual return of rentals to builders of rental housing projects, the amount of the return being determined by the Corporation for a period not exceeding thirty years. Insured builders are required to pay to the Corporation, during each year of the guarantee, a fee varying according to the period of the guarantee from 1 3/4% to 2 3/4% of the return of rentals guaranteed. The Corporation is permitted to invest any part of the Fund in obligations of, or guaranteed by, Canada. During the year, the Fund was credited with: premiums, $181,000; income from securities, including net loss on realization, $254,000; net profit on operation of real estate, $224,000, and other income, $24,000. There were no charges to the Fund and at December 31, 1970, the balance was $6,042,000.

The following is a summary of the results of the Corporation's operations for the past two years:

		Year ended December 31	
		1970	1969
Income—			
Loans:			
Interest earned from borrowers	$ 274,264,000		$ 237,762,000
Interest charged by Canada	238,055,000		202,959,000
		$ 36,209,000	34,803,000
Federal-provincial agreements:			
Interest earned on agreements	11,243,000		9,409,000
Interest charged by Canada	11,139,000		8,947,000
		104,000	462,000
Agreements for sale and mortgages:			
Interest earned from purchasers	4,699,000		5,026,000
Interest charged by Canada	1,082,000		1,179,000
		3,617,000	3,847,000
Real estate—Corporation owned:			
Rental revenue from tenants	10,067,000		9,420,000
Maintenance and other property expense, including interest charged by Canada	11,218,000		10,605,000
		(1,151,000)	(1,185,000)
Application fees earned on mortgage loans		3,044,000	2,929,000
Fees earned for services to government departments		1,062,000	989,000
Other income		2,145,000	2,074,000
		45,030,000	43,919,000
Expense—			
Salaries and employee benefits	19,369,000		17,623,000
Other	7,209,000		5,506,000
Losses on insured corporation loans	35,000		33,000
		26,613,000	23,162,000

	Year ended December 31	
	1970	1969
Net income before income tax	$ 18,417,000	$ 20,757,000
Income tax	9,497,000	11,027,000
Net income	8,920,000	9,730,000
Proceeds from sale of assets acquired without cost from Canada	2,667,000	2,916,000
Net income for year and proceeds from sales, transferred to Receiver General for Canada	$ 11,587,000	$ 12,646,000

Corporation employees numbered 2,241 at December 31, 1970 compared with 2,169 the year before.

The Central Mortgage and Housing Corporation Act provides that the responsible Minister, with the approval of the Governor in Council, shall appoint two auditors to hold office for a term not exceeding two years to audit the affairs of the Corporation.

324. *Industrial Development Bank.* This Bank was established in 1944 by the Industrial Development Bank Act, *R.S., c. I-9,* to aid businesses that need financial assistance but are unable to obtain it from other sources on reasonable terms. The Bank is under the management of a Board of Directors composed of the Directors of the Bank of Canada and the Deputy Minister of Industry, Trade and Commerce. The head office is in Ottawa, and there are five regional offices and thirty-two branches across Canada.

The authorized capital of the Bank is 750,000 shares having a par value of $75 million. The Act requires that the Bank of Canada subscribe for all the share capital and pay the amount subscribed at such times and in such amounts as the Board of Directors of the Industrial Development Bank may determine. The Industrial Development Bank is required to establish a reserve fund to be credited with its annual operating profits until such time as the balance equals the paid-up capital. At September 30, 1970, the Bank's fiscal year-end, the equity of the Bank of Canada in the Industrial Development Bank, $468,340,000, comprised: paid-up capital, $53,000,000; reserve fund, $21,240,000; and loans to the Industrial Development Bank, $394,100,000.

The following is a summary of the Bank's income and expense for the past two years:

	Year ended September 30	
	1970	1969
Income—		
Interest	$ 38,251,000	$ 30,569,000
Other	625,000	541,000
	38,876,000	31,110,000

	Year ended September 30	
	1970	1969
Expense—		
Salaries and employee benefits	$ 7,618,000	$ 6,762,000
Rental and other costs—leased premises	901,000	743,000
Travel and transfer	454,000	328,000
Office supplies, etc.	340,000	268,000
Advertising and public information	237,000	226,000
Telephone and telegrams	231,000	189,000
Investigation and supervision	141,000	126,000
Depreciation on equipment	108,000	97,000
Other	147,000	127,000
	10,177,000	8,866,000
Interest on debentures	26,102,000	20,107,000
Provision for losses	2,097,000	1,764,000
	38,376,000	30,737,000
Net income—transferred to the reserve fund	$ 500,000	$ 373,000

The number of employees averaged 731 in 1970 compared with 692 in 1969. Loans and investments increased to $487,157,000 at September 30, 1970 from $418,-908,000 at the end of the previous fiscal year.

The Act provides that the affairs of the Bank shall be audited by the two auditors appointed by the Governor in Council to audit the affairs of the Bank of Canada.

Departmental Operating Activities

325. Several government departments and non-corporate agencies are engaged in extensive trading and servicing activities covering a wide variety of operations. There are, however, no statutory directions in the Financial Administration Act regarding the preparation of annual financial statements for these trading or servicing activities, similar to those prescribed for Crown corporations. A number of departments and agencies prepare such statements and some of these are examined by the Auditor General.

For a number of years (paragraph 275 of our 1970 Report) we have been referring to the need for timely financial reports to provide Parliament with a clear understanding of the financial results of departmental operating activities. We advocated the inclusion in the Public Accounts of appropriate financial statements showing the overall results of operations by departments and non-corporate agencies engaged in trading and servicing activities. Such statements should be on an accrual basis and include depreciation charges on buildings and equipment, interest on funds employed, and the value of services provided without charge by other government departments. The operating results shown by the statements should be reconciled with those recorded on a cash basis. Each balance sheet, which the Auditor General would be prepared to examine and report on, should show clearly the year-end position of the activity.

The Royal Commission on Government Organization in its report on Financial Management recommended that accounts of departments and agencies conducting trading and servicing operations be maintained on an accrual basis to show clearly the costs of operations. The Commission also advocated greater use of revolving funds and accountable advances to encourage the use of business-type budgeting and production of meaningful operating statements to assist Parliament and aid management in the control of its costs.

Treasury Board circular letter No. 1970-7, of January 8, 1970 sets out regulations, effective April 1, 1970, regarding the establishment and operation of revolving funds and working capital advances, subject to any Act of Parliament. The circular points out that the operations of revolving funds should be planned so that they will be self-sustaining with total costs to be provided for and recovered in the charges made for services rendered. These costs should include not only direct outlays for salaries, materials and supplies, but a provision for replacement of capital facilities, interest on outstanding capital advances and costs of common services provided by other agencies.

The circular letter further stipulates that the accounting systems should be on an accrual basis whenever necessary. In addition to recording operating expenses

and receipts, they must provide for cost accounting and other records which will permit the ready and regular production of manufacturing and trading statements and balance sheets equivalent to those which would normally be expected for similar operations in the private sector. At the end of each fiscal year a balance sheet, an operating statement and a statement of the disposition of the surplus or deficit are to be prepared for each revolving fund and working capital advance and submitted to the Auditor General for certification. This new directive is a further step towards the objectives which we have been advocating.

Some progress has been made as is indicated by the statements of trading and servicing activities of departments and agencies summarized in the paragraphs which follow.

326. *Agricultural Products Board.* This Board operates under the authority of the Agricultural Products Board Act, *R.S., c. A-5,* and consists of a chairman and two members appointed by the Governor in Council. The Act empowers the Board, under the direction of the Minister of Agriculture and subject to approval of the Governor in Council, to buy, sell, or import, and to store, transport or process agricultural products. The Agricultural Products Board Account was established in the Consolidated Revenue Fund in accordance with section 5 of the Act and all financial transactions of the Board are recorded in this Account. The Board's activities are administered by personnel of the Department of Agriculture and the members of the Board also serve on the Agricultural Stabilization Board.

There were no inventories at March 31, 1971 and the Crown had no equity in the Account at that date.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1971	1970
Trading operations—		
Sales of:		
Chicken broilers	$ 532,000	$ —
Whole egg powder and egg mélange	—	518,000
Cost of sales	930,000	595,000
Loss on trading operations	398,000	77,000
Administration	2,000	1,000
Interest on working capital	—	16,000
Loss for the year	$ 400,000	$ 94,000
Loss for the year provided for by—		
Agriculture Vote 15 (Vote 17 in 1969–70)	$ 398,000	$ 77,000
Government departments which provided major services without charge	2,000	17,000
	$ 400,000	$ 94,000

327. *Agricultural Stabilization Board.* This Board, consisting of three members appointed by the Governor in Council, was established by the Agricultural Stabilization Act, *R.S., c. A-9,* and is responsible for stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilization measures take the form of the purchase of commodities at prescribed prices, payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold, or payments to processors for the benefit of producers. The activities of the Board are financed by the Agricultural Commodities Stabilization Account which has been established in the Consolidated Revenue Fund in accordance with section 13 of the Act. The net operating losses on the operations of the Account and the administrative expenses of the Board are met from moneys appropriated by Parliament for the purpose.

There were no inventories at March 31, 1971 and the Crown had no equity in the Account at that date.

The results of the Board's activities for the past two years are summarized as follows:

	Year ended March 31	
	1971	1970
Payments to the Canadian Dairy Commission for stabilization of the price of milk for the benefit of producers	$ 125,000,000	$ 131,857,000
Deficiency payments—		
Sugar beets	1,067,000	2,674,000
Wool	402,000	1,070,000
Potatoes	—	695,000
Eggs	—	1,000
	1,469,000	*4,440,000*
Administration—		
Staff salaries	330,000	321,000
Employee benefits	48,000	47,000
Part-time management and support services	47,000	52,000
Accommodation	24,000	24,000
Accounting and postal services	17,000	17,000
Other expenses	25,000	15,000
	491,000	*476,000*
Interest on working capital	—	4,680,000
	126,960,000	141,453,000
Deduct: Forfeiture of contractor's security deposit in settlement of claim	74,000	—
Loss for the year	$ 126,886,000	$ 141,453,000

	Year ended March 31	
	1971	1970
Loss for the year provided for by—		
Agriculture Vote 15 (Vote 17 in 1969–70)	$ 126,395,000	$ 136,297,000
Agriculture Vote 10 (Vote 15 in 1969–70)	355,000	336,000
Government departments which provided major services without charge	136,000	4,820,000
	$ 126,886,000	$ 141,453,000

As funds for the operations of the Board were available in Agriculture Vote 15 throughout the year, no working capital was required and no interest expense was incurred in the year ended March 31, 1971.

328. *Agriculture Revolving Fund.* Agriculture Vote 783 of Appropriation Act No. 5, 1955, *1955, c.60,* authorized the operation of a revolving fund for the purposes of financing the production of new and improved varieties of seeds and the acquisition, maintenance and development for experimental purposes of livestock, poultry and eggs, including administrative expenses of all authorized projects. The amount that may be outstanding was increased by $1,200,000 to $1,820,000 by Agriculture Vote L6a, Appropriation Act No. 4, 1970, *1970-71-72, c.4.*

The Crown's equity in the Fund at March 31, 1971 was $670,000 represented by inventories of livestock, poultry, seeds and supplies, $640,000, and accounts receivable, $46,000, less accounts payable, $16,000.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1971	1970
Cost of experimental and development projects—		
Salaries and wages	$ 469,000	$ 395,000
Employee benefits	55,000	50,000
Livestock	353,000	317,000
Rental of land for rapeseed project	267,000	—
Feed and other supplies	170,000	90,000
Accommodation	137,000	130,000
Seed	65,000	44,000
Administration	65,000	48,000
Interest on working capital	29,000	15,000
Miscellaneous	36,000	23,000
	1,646,000	1,112,000
Less:		
Proceeds from sales of livestock, seeds and poultry	635,000	772,000
Increase (decrease) in inventories	366,000	(8,000)
	1,001,000	764,000
Net cost of projects	$ 645,000	$ 348,000

	Year ended March 31 1971	1970
Net cost of projects provided for by—		
Agriculture Vote 10 (Vote 15 in 1969–70)	$ 359,000	$ 340,000
Agriculture Vote 5	95,000	77,000
Government departments which provided major services without charge	225,000	198,000
	679,000	615,000
Less: Amount transferred from the Revolving Fund as revenue	34,000	267,000
	$ 645,000	$ 348,000

A major new project was the production of a new variety of rapeseed on leased land in the southern United States during the winter of 1970-71 for distribution to growers in Western Canada in time for spring planting. The cost of $389,000 is to be recovered from the sale of the new zero-erucic variety of rapeseed.

329. *Airport operations.* The recorded capital investment of the Department of Transport in airports and associated facilities, including aircraft, aircraft spares and special equipment, as at March 31, 1971, was $870,574,000 compared with $787,826,000 at the end of the preceding year, an increase of $82,748,000.

The following is a summary of the revenue from civil aviation airport operations for the year, together with comparable figures for the preceding year:

	Year ended March 31 1971	1970
Aircraft landing fees—		
Trans-oceanic	$ 9,096,000	$ 9,399,000
Domestic	8,165,000	6,839,000
Trans-border	3,015,000	2,775,000
Other	41,000	19,000
	20,317,000	*19,032,000*
Concessions—		
Gasoline and oil	7,867,000	6,873,000
Car parking	4,654,000	4,135,000
Restaurants and snack bars	1,440,000	1,152,000
Car rental	1,304,000	1,133,000
Other	2,789,000	2,349,000
	18,054,000	*15,642,000*
Rentals—		
Office and shop space	3,299,000	3,200,000
Land	2,067,000	1,461,000
Living quarters	1,163,000	672,000
Hangar	184,000	164,000
Other	857,000	1,089,000
	7,570,000	*6,586,000*
Joint user terminal facilities charge—		
International	3,506,000	2,825,000
Domestic	3,355,000	1,970,000
	6,861,000	*4,795,000*

	Year ended March 31 1971	1970
Other	$ 4,229,000	$ 3,242,000
Total revenue	57,031,000	49,297,000
Expenditure recovered from Airports Revolving Fund	1,400,000	1,064,000
Total revenue, and expenditure recovered	$ 58,431,000	$ 50,361,000

The amount of $1,400,000 shown as revenue in the form of expenditure recovered from the Airports Revolving Fund represents the estimated cost of certain services supplied by the Department in respect of the Montreal and Toronto International Airports. This is not revenue but is a distribution of the Department's costs and as such is a reduction of the amount charged to the Department's Air Services appropriations. Therefore, several of the amounts appearing in the following paragraphs are $1,400,000 less than is shown in the Public Accounts.

Operating and maintenance expenditure for the year 1970-71 amounted to $46,410,000, of which $35,278,000 was charged to the provision for "Airports and Other Ground Services—Operation and Maintenance" (included in Transport Vote 35) and $11,132,000, applicable to Montreal and Toronto International Airports, was charged to the Airports Revolving Fund, authorized by Transport Vote L160, Appropriation Act No. 3, 1969, *1968-69, c.36*. The total expenditure of $46,410,000 was $5,207,000 in excess of the corresponding figure of $41,203,000 for the preceding year.

Of the revenue of $57,031,000 arising from airport operations, $25,635,000 was credited to "Airports and Other Ground Services—Operation and Maintenance", $31,361,000 to the Airports Revolving Fund and $35,000 to non-tax revenue. The total revenue of $57,031,000 was $7,734,000 in excess of the corresponding figure of $49,297,000 for the preceding year.

The revenue arising from airport operations exceeded expenditure (excluding new construction) by $10,621,000 as compared with $8,094,000 in the preceding year. Both the revenue and expenditure for 1970-71 applicable to "Airports and Other Ground Services—Operation and Maintenance" are understated by $292,500 (see paragraph 193 of this Report), and similarly the revenue and expenditure of the Airports Revolving Fund are understated by $583,000 as a result of recording the net revenue only from parking and other operations at certain airports.

The operating results are recorded on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration. The Department does, however, maintain accounts on an accrual basis for its operations at 17 of the major airports, which together account for 85% of the

revenue from civil aviation airport operations, and prepares therefrom periodic financial statements for management purposes.

In addition, there appear on page 24.17 of Volume II of the Public Accounts "Consolidated statements of operating results and investment position for 205 airports covering the fiscal years ended March 31, 1971 and March 31, 1970". These statements, which include provision for depreciation, interest on investment, administrative overhead, and employee benefits, show that the Department incurred a loss of $60,937,000 on operations for the year, an increase of $7,638,000 over the loss of $53,299,000 for the preceding year. The statements were not submitted to the Auditor General for certification.

330. *Airports Revolving Fund.* The Department of Transport working capital advance account—Airports Revolving Fund—was authorized by Vote L160, Appropriation Act No. 3, 1969, *1968-69, c.36*, for the purpose of the operation and development of the Montreal and Toronto International Airports and such other airports as the Treasury Board may approve. All operating expenses and capital expenditures and all amounts paid in respect of all loans credited to the account, including interest thereon, are to be charged to the Fund. All monies received from the operation of the airports and all loans made by the Minister of Finance for the purpose of financing capital expenditures are to be credited to the Fund. The net amount charged to the account at any one time is not to exceed $3,000,000.

Transactions in the Airports Revolving Fund relate solely to the operation of Montreal and Toronto International Airports and the development of the new Ste. Scholastique and Toronto II International Airports.

The Crown's equity in the Airports Revolving Fund at March 31, 1971 was $191,709,000 comprising current assets, $3,003,000, fixed assets, $181,925,000, pre-opening expenses, $7,460,000, and accounts payable, $679,000.

Loans authorized for current and subsequent fiscal years, and amounts advanced to the Fund during the past two years, are as follows:

	Authorized	Advanced
Transport Vote L165, 1969–70	$ 15,094,000	$ 5,126,000
Transport Vote L45, 1970–71	67,829,000	41,205,000
	$ 82,923,000	$ 46,331,000

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1971	1970
Income—		
Aviation:		
Landing fees	$ 12,363,000	$ 11,359,000
Rentals	6,493,000	5,728,000
Fuel charges	4,194,000	3,871,000
	23,050,000	*20,958,000*

	Year ended March 31 1971	1970
Other:		
Concessions	$ 6,661,000	$ 6,038,000
Service fees and miscellaneous	507,000	386,000
Sales of utilities	384,000	305,000
	7,552,000	*6,729,000*
	30,602,000	27,687,000
Operating expense—		
Salaries and wages	4,199,000	3,626,000
Employee benefits	840,000	—
Depreciation	5,242,000	5,212,000
Operation and maintenance	5,066,000	4,139,000
Grants in lieu of taxes	2,752,000	2,065,000
Headquarters and regional overhead	2,500,000	1,769,000
	20,599,000	16,811,000
Net operating income	10,003,000	10,876,000
Loan interest expense	230,000	—
Net income, retained in the Fund	$ 9,773,000	$ 10,876,000

331. *The Board of Grain Commissioners for Canada.* This Board, consisting of a chief commissioner and two other commissioners appointed by the Governor in Council, is responsible for the administration of the Canada Grain Act, *R.S., c. G-16,* including the inspection, weighing, storage and transportation of grain, the fixing of tariffs, the establishment of standards and any other matter relating to the handling of grain. On April 1, 1971 the former Canada Grain Act was repealed and replaced by a new Canada Grain Act, *1970-71-72, c.7,* which is administered by the Canadian Grain Commission. The responsible Minister is the Minister of Agriculture.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31 1971	1970
Expenditure—		
Salaries, allowances, etc.	$ 6,968,000	$ 6,205,000
Employee benefits	1,019,000	1,121,000
Accommodation	258,000	226,000
Equipment	257,000	116,000
Travel	250,000	199,000
Transportation and communications	186,000	112,000
Materials, supplies and office equipment	170,000	109,000
Other	162,000	138,000
	9,270,000	8,226,000

	Year ended March 31	
	1971	1970
Revenue—		
Inspection	$ 3,865,000	$ 2,693,000
Weighing	1,937,000	1,324,000
Registrations and cancellations	260,000	167,000
Licences	27,000	27,000
Other	2,000	4,000
	6,091,000	4,215,000
Excess of expenditure over revenue	$ 3,179,000	$ 4,011,000
Excess of expenditure over revenue provided for by—		
Agriculture Vote 25 (Votes 50 and 51 in 1969–70)	$ 8,179,000	$ 7,033,000
Canada Grain Act, section 4	61,000	61,000
Government departments which provided certain major services without charge	1,030,000	1,132,000
	9,270,000	8,226,000
Less: Revenue	6,091,000	4,215,000
	$ 3,179,000	$ 4,011,000

The increases of $1,044,000 in expenditure and $1,876,000 in revenue were mainly due to the movement of greater quantities of grain in 1970-71.

332. *Canada Pension Plan Account.* The Canada Pension Plan, *R.S., c. C-5*, provides for a comprehensive program of contributory old age pensions and supplementary benefits for most persons in the work force in Canada, whether employees or self-employed, with the exception of those in the Province of Quebec who are covered by a parallel provincial plan.

Section 110 of the Act established the Canada Pension Plan Account within the accounts of Canada to which all contributions, interest and other amounts received under the Plan are credited and to which benefits and other payments under the Plan, including administration costs, are charged. Section 111 of the Act established the Canada Pension Plan Investment Fund, also within the accounts of Canada, in which investments in provincial and federal securities are recorded.

The Act requires the Minister of National Health and Welfare to make an annual report to Parliament on the administration of the Act, including a statement showing amounts credited to or charged to the Canada Pension Plan Account and the Canada Pension Plan Investment Fund during the year. There is no requirement in the Act for the Auditor General to report upon this statement although such a provision would appear desirable. However, as both the Canada Pension Plan Account and the Canada Pension Plan Investment Fund form part of the accounts of Canada, they are examined by the Auditor General under the provisions of sections 58 and 60 of the Financial Administration Act. This examination includes a

verification, by test, of transactions in the two accounts, a review of accounting and internal control procedures and confirmation of the investments of the Fund at the year-end.

The following is a summary of the transactions in the Canada Pension Plan Account for the past two years:

	Year ended March 31	
	1971	1970
Balance at beginning of year	$ 2,932,258,000	$ 2,107,758,000
Receipts—		
Contributions from employers and employees	812,867,000	745,646,000
Interest on investments	202,659,000	139,701,000
Interest on the operating balance	3,987,000	3,807,000
Other income	549,000	404,000
	1,020,062,000	889,558,000
Disbursements—		
Benefit payments:		
Retirement pensions	39,832,000	17,478,000
Widows pensions	24,371,000	14,304,000
Orphans benefits	11,533,000	7,069,000
Death benefits	9,528,000	8,458,000
Disability pensions	3,237,000	16,000
Disabled contributor child benefits	711,000	4,000
Disabled widowers pensions	24,000	17,000
	89,236,000	*47,346,000*
Administration expense	19,507,000	17,712,000
	108,743,000	65,058,000
Excess of receipts over disbursements	911,319,000	824,500,000
Balance at end of year	$ 3,843,577,000	$ 2,932,258,000
This balance comprised—		
Investment Fund	$ 3,701,275,000	$ 2,832,734,000
Operating balance	142,302,000	99,524,000
	$ 3,843,577,000	$ 2,932,258,000

Transactions are recorded in the Account on a cash basis and hence no amount has been included for contributions relating to periods prior to March 31, 1971 but received after the year-end or for accrued interest of $71,801,000 on investments.

The item "Other income" comprises: $273,000 received from the Quebec Pension Plan, of which $91,000 was its share of costs of registration of employees and $182,000 was its share of benefits paid to dual contributors; $150,000 received from Old Age Security Administration for the cost of melding old age security and guaranteed income supplement payments with those of the Canada Pension Plan; $86,000 derived from electronic data processing services performed for others; and $40,000 in refunds of previous years' expenditure.

The following table shows the number of benefits in payment at the end of each of the past two years:

	March 31, 1971	March 31, 1970
Retirement pensions	171,601	114,939
Orphans benefits	38,666	23,964
Widows pensions	35,779	20,952
Disability pensions	3,236	97
Disabled contributor child benefits	2,346	85
Disabled widowers pensions	25	23
	251,653	160,060

During the year 21,537 lump-sum payments of death benefits were made, compared with 18,900 in the previous year.

The following schedule shows the administration expense charged to the Account during the year with respect to services provided to the Plan:

	Department of National Revenue (Taxation)	Department of National Health and Welfare	Department of Supply and Services	Unemployment Insurance Commission	Department of Insurance	Total
Salaries	$ 6,488,000	$ 4,309,000	$ 1,136,000	$ 260,000	$ 76,000	$ 12,269,000
Employee benefits	1,076,000	626,000	140,000	38,000	—	1,880,000
Accommodation	956,000	480,000	80,000	28,000	—	1,544,000
Office expense, stationery and equipment	495,000	162,000	843,000	79,000	—	1,579,000
Travel	461,000	288,000	5,000	—	—	754,000
Advertising	310,000	71,000	—	—	—	381,000
Other	339,000	403,000	273,000	66,000	19,000	1,100,000
	$ 10,125,000	$ 6,339,000	$ 2,477,000	$ 471,000	$ 95,000	$ 19,507,000

Administration expense increased by $1,795,000 from $17,712,000 in 1969-70 to $19,507,000 in 1970-71, comprising increases of $1,516,000 for salaries and employee benefits, $267,000 for accommodation, $69,000 for office expense, stationery and equipment, $177,000 for other expenses, and decreases of $194,000 for travel and $40,000 for advertising.

We have noted in previous Reports (paragraph 281 in 1970) that the Treasury Board has given to the Department of National Health and Welfare, as the Department administering the Plan, the right to review and audit all charges made to the Canada Pension Plan Account by other departments and agencies. An interdepartmental committee, which was assigned the task of reviewing the manner in which costs were being allocated to the Plan by departments and agencies and of recommending the manner in which the audit of charges should be made, recommended that the audit be made by internal audit groups of the servicing departments and agencies. We also reported last year that in September 1970 the Manage-

ment Review Directorate of the Department of National Health and Welfare was made responsible for ensuring that a proper audit is made of all administration expense charged to the Canada Pension Plan Account.

During the year, the Directorate made an examination of the administration expense charged against the Plan in 1969-70 and the estimated charges for 1970-71. Their examination disclosed the following weaknesses:

1. Statements of costs submitted by departments and agencies providing services to the Plan bore no evidence, in most cases, of having been audited by internal auditors, as recommended by the interdepartmental committee.
2. The method of calculating administration expense charged to the Plan by the Department of National Revenue (Taxation) was inadequate.
3. The Department of Supply and Services had made no comprehensive study of indirect costs being charged to the Plan.

The Act restricts the investments of the Plan to securities of Canada or the provinces, or securities guaranteed by the provinces, which are not negotiable, transferable or assignable. The amount available for investment at each month-end is determined by deducting from the uninvested balance in the Account the estimated amount required to meet all payments during the following three months. This amount is allocated monthly to the various provinces in the ratio that contributions originating in each province bear to the total of all contributions. Any balance not required for the purchase of securities offered by a province is to be invested in securities of Canada. The rate of interest on securities purchased for the Investment Fund is determined, at the time of purchase, by the average market yield of outstanding negotiable bonds of Canada which are twenty years or more from maturity.

At March 31, 1971 securities of Canada and the provinces bearing interest at rates varying from 5.29% to 8.33% were held as follows:

Ontario	$ 2,062,407,000
British Columbia	535,852,000
Alberta	341,141,000
Manitoba	217,816,000
Saskatchewan	174,690,000
Nova Scotia	142,736,000
New Brunswick	108,805,000
Newfoundland	70,316,000
Prince Edward Island	13,859,000
Quebec	12,832,000
Canada	20,821,000
	$ 3,701,275,000

Judges and members of the Canadian Forces and the Royal Canadian Mounted Police employed in the Province of Quebec are excluded from participation in the

Quebec Pension Plan and have been brought under the Canada Pension Plan. As their employment is in the Province of Quebec, their contributions to the Canada Pension Plan, and those of their employer, have been allocated to that Province, which accounts for the investments in securities of the Province of Quebec.

The financial statements of the Canada Pension Plan Account were not submitted to the Auditor General for certification.

333. *Canadian Government Elevators.* The Canadian Government Elevators comprise six elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and Prince Rupert. To March 31, 1971 the Elevators were operated by the Board of Grain Commissioners for Canada under authority of section 166 of the Canada Grain Act, *R.S., c. G-16,* and Order in Council P.C. 1372 of August 19, 1925. As of April 1, 1971 the Elevators are operated by the Canadian Grain Commission under authority of section 12 of the Canada Grain Act, *1970-71-72, c.7,* and Order in Council P.C. 1971-455 of March 9, 1971. The Minister of Agriculture is the responsible Minister.

The Crown's equity in the Elevators at March 31, 1971 was $15,492,000 represented by fixed assets, $14,214,000, and working capital, $1,278,000.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1971	1970
Income—		
Storage	$ 1,130,000	$ 1,169,000
Elevation	914,000	802,000
Cleaning	219,000	104,000
Drying	66,000	505,000
Screenings and surplus grain	281,000	285,000
Other	97,000	47,000
	2,707,000	2,912,000
Expense—		
Salaries and wages	1,336,000	1,274,000
Employee benefits	224,000	246,000
Grants in lieu of taxes	392,000	412,000
Heat, light, power and water	148,000	173,000
Head office	96,000	115,000
Grain shortages on weigh-overs	92,000	15,000
Building and equipment repairs and maintenance	92,000	97,000
Purchases of screenings	39,000	41,000
Cheque issue services	2,000	2,000
Other	69,000	103,000
	2,490,000	2,478,000
Operating profit without provision for depreciation	$ 217,000	$ 434,000

	Year ended March 31 1971	1970
Operating profit disposed of as follows—		
Income	$ 2,707,000	$ 2,912,000
Less: Expense charged against income	37,000	—
Amount transferred or to be transferred to the Receiver General	2,670,000	2,912,000
Expense charged to—		
Agriculture Vote 25 (Vote 50 in 1969–70)	2,245,000	2,246,000
Less: Stores acquired for inventories	18,000	16,000
	2,227,000	2,230,000
Appropriations of departments which provided certain major services without charge	226,000	248,000
	2,453,000	2,478,000
	$ 217,000	$ 434,000

Income from drying operations decreased by $439,000 as the 1970 crop did not require artificial drying. This was in part offset by increases of $112,000 in elevation and $115,000 in cleaning revenue resulting from an increase of 10 million bushels in export shipments. Receipts of grain decreased from 22.2 million bushels in 1969-70 to 18.3 million bushels in 1970-71.

The expense of $37,000 was charged against income as a result of an error in recording certain grain shortages, for which the Elevators were responsible, when these were deducted by the Canadian Wheat Board from payments to the Elevators for storage. As only the net payment from the Canadian Wheat Board was credited to revenue, the amount transferred or to be transferred to the Receiver General was understated by $37,000 and the net grain shortages of $92,000 were similarly understated when charged to Vote 25.

A loss of $117,000 during the year by the Lethbridge elevator was the twenty-sixth consecutive annual loss, the accumulated losses totalling $1,453,000.

334. *Canadian Government Printing Bureau.* The Printing Bureau, which is part of the Department of Supply and Services, operates the printing plant in Hull, Que., and small printing units across Canada. Its operations are financed by means of a revolving fund established by Vote L104b, Appropriation Act No. 1, 1969, *1968-69, c.23.* The amount outstanding may not exceed $8 million.

The Crown's equity in the Canadian Government Printing Bureau Revolving Fund at March 31, 1971 was $889,000 represented by inventories of work in process and printing metals and supplies of $1,895,000, offset in part by commercial accounts payable and accrued liabilities of $1,006,000. Equipment with a cost value of $8,025,000 was not included on the balance sheet of the Bureau at March 31, 1971.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1971	1970
Sales	$ 22,733,000	$ 20,916,000
Cost of sales	20,400,000	18,081,000
Equipment purchases	368,000	556,000
Administrative expense	1,335,000	1,446,000
	22,103,000	20,083,000
Adjustments for revaluation of inventory of printing metals	—	386,000
	22,103,000	19,697,000
Profit for the year	$ 630,000	$ 1,219,000

Operating costs do not include the value of accommodation and other services provided without charge by government departments or depreciation on equipment previously acquired from parliamentary appropriations and still in use. However, the full cost of equipment purchased during the year, $368,000, has been included. (See paragraph 56 of this Report.)

335. *Canadian Government Supply Service.* This Service, a branch of the Department of Supply and Services, is financed by a revolving fund established by Vote L18e, Appropriation Act No. 4, 1966, *1966-67, c.6,* for the purpose of acquiring and managing stores; for manufacturing, producing, processing or dealing in stores or materials; for the purchase and supply of repair services for office furniture and equipment; and for freight services. The purposes of the revolving fund were extended by Vote L13g, Appropriation Act No. 2, 1967, *1966-67, c.85,* and Vote L22a, Appropriation Act No. 7, 1967, *1967-68, c.8,* to include the procurement of insurance coverage at bulk rates on the movement of household effects and the financing of the travel accounts rendered by carriers for services arranged by the Central Travel Service. The amount that may be outstanding was increased to $20 million by Supply and Services Vote L147b, Appropriation Act No. 1, 1970, *1969-70, c.24.*

The Crown's equity in the Canadian Government Supply Service Revolving Fund at March 31, 1971 was $2,262,000 represented by inventories, $5,990,000, and motor vehicles, $4,000, offset by accounts payable to commercial suppliers of $3,732,000.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1971	1970
Disbursements for government departments and agencies on a recoverable basis	$ 14,281,000	$ 10,490,000

	Year ended March 31	
	1971	1970
Supply operations for government departments and agencies—		
Sales	$ 18,329,000	$ 12,367,000
Other income	376,000	67,000
	18,705,000	12,434,000
Cost of sales	15,321,000	10,916,000
Warehousing and distribution	1,955,000	—
Freight	520,000	455,000
Inventory shortages and obsolete materials	52,000	—
	17,848,000	11,371,000
Profit	857,000	1,063,000
Office equipment and furniture repair services for government departments and agencies—		
Service fees and charges	1,776,000	1,526,000
Cost of services	1,763,000	1,527,000
Profit (loss)	13,000	(1,000)
Net profit for the year	$ 870,000	$ 1,062,000

The increase of $3,791,000 in disbursements for government departments and agencies on a recoverable basis was due to the increased participation by departments and agencies in the central travel and freight services arrangements.

The increase of $5,962,000 in sales in the supply operations was due to an increased volume of business and to higher prices to cover certain warehousing and distribution costs which, in previous years, were charged to appropriations of the Department of Supply and Services.

The net profit for the year of $870,000 has been retained in the Revolving Fund pursuant to the authority contained in Treasury Board Minute No. 696859 of April 23, 1970 to "carry forward to future years any operating surpluses up to a maximum amount equivalent to the total amount of the two best years' surpluses achieved during the previous five years". The previous year's net profit of $1,062,000 was transferred from the Fund as revenue of the Department of Supply and Services.

Costs not charged to the Revolving Fund include certain administrative costs applicable to all services financed through the Fund; depreciation on certain equipment; management, procurement, accounting and computer services costs relating to the supply operations; and the value of accommodation and other services provided without charge by government departments. These costs are estimated by the Department at $4,200,000.

336. *Computer Services Bureau.* This Bureau, a branch of the Department of Supply and Services, provides data processing and related services to government

departments and agencies. It is financed by a working capital advance account that was authorized by Vote L99e, Appropriation Act No. 4, 1966, *1966-67, c.6.* The amount outstanding is not to exceed $2 million.

The Bureau had a deficit of $699,000 at April 1, 1970 and suffered an operating loss of $912,000 for the year. During the year, however, Supply and Services Vote 10a, Appropriation Act No. 4, 1970, *1970-71-72, c.4,* reimbursed the Bureau in the amount of $1,242,000 for its accumulated loss to September 30, 1970. A further deficit of $369,000 was incurred in the six-month period ended March 31, 1971. At that date the Crown's equity in the Bureau was $133,000 comprising: capital assets, $154,000; inventories, $35,000; accounts receivable from outsiders, $10,000; and accounts payable to outside suppliers, $66,000.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1971	1970
Income—		
Fees and rental—Bureau computer	$ 1,516,000	$ 1,867,000
Fees and rental—Outside computers	3,196,000	3,391,000
Programming services	367,000	264,000
Sale of tapes	19,000	35,000
	5,098,000	5,557,000
Expense—		
Rental of Bureau computer	1,269,000	1,046,000
Rental of Outside computers	3,115,000	3,347,000
Salaries and employee benefits	1,030,000	937,000
Professional services	165,000	59,000
Materials and supplies	108,000	112,000
Interest on advances	96,000	43,000
Accommodation	86,000	83,000
Other	141,000	104,000
	6,010,000	5,731,000
Loss for the year	$ 912,000	$ 174,000

We were informed that during 1970-71, in order to meet intense competition from the private sector, the Bureau reduced its scale of fees and rental charges and improved the quality of its services by the addition of seven employees (99 at March 31, 1971) and by a wider use of professional advice. The Bureau also rented and installed a number of remote terminals and additional equipment for the electronic storage of information. However, a series of intermittent failures were suffered during the year which resulted in a number of government departments making use of other computers. The foregoing factors resulted in an increase in costs accompanied by a decrease in revenue.

337. *Defence Production Revolving Fund.* Section 15 of the Defence Production Act, *R.S., c. D-2,* established the Defence Production Revolving Fund for the purpose of acquiring, storing, maintaining and transporting stocks of materials or defence supplies, and providing working capital loans and advances to persons engaged in defence work. The Fund is now operated by the Department of Supply and Services. The amount outstanding may not exceed $100 million, a limit which has not been approached in recent years.

The Crown's equity in the Fund at March 31, 1971 was $36,260,000 consisting mainly of working capital loans and progress payments to suppliers.

The Fund's operations for the past two years are summarized as follows:

	Year ended March 31	
	1971	1970
Interest income	$ 1,340,000	$ 869,000
Profit (loss) on disposal of strategic materials	12,000	(104,000)
	1,352,000	765,000
Adjustment for decline in value and shortage of inventory	—	5,703,000
Net profit (loss) for the year	$ 1,352,000	$ (4,938,000)
Profit transferred from the Revolving Fund as revenue	$ 1,352,000	$ 869,000
Loss provided for by:		
Supply and Services Vote 6b of 1969–70	—	(5,703,000)
Supply and Services Vote 5c of 1970–71	—	(104,000)
	$ 1,352,000	$ (4,938,000)

338. *Dominion Bureau of Statistics Revolving Fund.* Industry, Trade and Commerce Vote L82b of Appropriation Act No. 1, 1969, *1968-69, c.23,* authorizes the operation of a revolving fund for the purpose of financing the cost of special statistical services performed by the Dominion Bureau of Statistics (now Statistics Canada) at the request of government departments and agencies, and others. The amount outstanding may not exceed $250,000. The Vote wording provides that the Fund is to be credited with "such portion as may be determined by the Treasury Board of the amounts received in payment for such services". Although the Treasury Board has not formally determined the portion of the revenue to be credited to the Fund, the entire revenue for the year was credited thereto.

The Crown had no equity in the Fund at March 31, 1971.

A summary of the results of operations for the year ended March 31, 1971, the first year of operation, follows:

Income—	
Charges for special statistical services performed for government departments and agencies, and others	$ 1,306,000

Expense—	
Salaries and wages	$ 952,000
Travel and removal	116,000
Professional services	102,000
Enumerators	50,000
Telephones and telegrams	26,000
Office supplies	23,000
Printing	21,000
Interest	10,000
Freight and express	2,000
Other	3,000
	1,305,000
Net income for the year transferred from the Revolving Fund as revenue	$ 1,000

339. *Fisheries Prices Support Board.* This Board, consisting of not more than six members appointed by the Governor in Council, was established under the Fisheries Prices Support Act, *R.S., c. F-23.* The Board is responsible for investigating and, where appropriate, recommending action to support the prices of fisheries products, in an endeavour to secure a fair relationship between the returns from fisheries and those from other occupations. Support measures take the form of the purchase of a fisheries product by the Board at a prescribed price or the payment to a producer of the difference between a prescribed price and a lower average price at which a product is sold during a specified period. The Act requires that an account called the Fisheries Prices Support Account be maintained to which shall be charged all expenditures other than administrative costs, which are met out of moneys appropriated by Parliament for the purpose, and to which shall be credited the proceeds of sales of fisheries products. The Act also provides that the net operating profit in each fiscal year shall be deposited in the Consolidated Revenue Fund as revenue, and that the net operating loss in any fiscal year may be recouped from moneys appropriated by Parliament for the purpose.

The Crown's equity in the Account at March 31, 1971 was $84,300 represented by an inventory of queen crab.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1971	1970
Trading operations—		
Sales	$ 885,000	$ 5,178,000
Cost of sales	880,100	5,192,000
Profit (loss) on trading operations	4,900	(14,000)

— by commodities, 1970–71 —

	Sales	Cost of sales	Profit (loss)
Canned mackerel	$ 414,000	$ 409,000	$ 5,000
Queen crab	7,800	7,900	(100)
Lake Erie yellow perch	463,200	463,200	—
	$ 885,000	$ 880,100	$ 4,900

	Year ended March 31	
	1971	1970
Deficiency payments—		
Salted cod	$ 23,000	$ 1,073,000
Loss for the year	$ 18,100	$ 1,087,000
Loss not provided for, to be recovered from future parliamentary appropriation	$ 18,100	$ —
Loss provided for by Fisheries and Forestry Vote 15b of 1969–70	—	1,087,000
	$ 18,100	$ 1,087,000

The financial statements of the Board were not submitted to the Auditor General for certification.

340. *Government Telephone Account.* Finance Vote L20 of Appropriation Act No. 1, 1963, *1963, c.1,* authorized the establishment of a special account in the Consolidated Revenue Fund to be known as the Government Telephone Account for the purpose of financing the government telephone service. The amount to be outstanding at any one time in the Account may not exceed $1 million. The Account is subject to the regulations covering the operation of revolving funds contained in Treasury Board Circular No. 1970-7 of January 8, 1970.

The Crown had no equity in the Account at March 31, 1971 as the balance of $497,000 represented undistributed costs of telephone services recoverable from user departments.

A summary of the transactions in the Account for the past two years follows:

	Year ended March 31	
	1971	1970
Unbilled charges at beginning of year	$ 111,000	$ 283,000
Operating costs—		
Telephone company billings	7,322,000	5,474,000
Salaries and wages of government telephone operators	455,000	236,000
	7,888,000	5,993,000
Less: Charges recovered from government departments	7,391,000	5,882,000
Unbilled charges at end of year	$ 497,000	$ 111,000

Financial statements prepared by the Department of Communications are reproduced in the Public Accounts under the heading Government Telephone Working Capital Advance. These statements do not meet Treasury Board requirements because they reflect only cash receipts and payments and do not show any accounts payable, accounts receivable from departments of government, or other

accruals. Furthermore, there has been no analysis of the balance in the Account ($497,000 at March 31, 1971) for a number of years. An immediate determination of the items making up this balance is required.

341. *Information Canada—publishing activities.* On April 23, 1970 the Minister of Supply and Services, pursuant to the provisions of Supply and Services Vote 25, Appropriation Act No. 3, 1970, *1969-70, c.46,* assigned to Information Canada the publishing functions of the Department of Supply and Services. These include the acquisition and provision of printing and publishing services for departments; the purchase, publication, distribution and sale of publications to the public through the retail distribution system and bookstores associated therewith; as well as the organization, management and administration of a consolidated information service.

A summary of expenditure and revenue for the year together with comparable figures for the previous year follows:

	Year ended March 31	
	1971	1970
Expenditure—		
Printing and binding of publications for sale and for free distribution	$ 1,849,000	$ 1,868,000
Administration, publishing and distribution	1,295,000	2,106,000
	3,144,000	3,974,000
Revenue—		
Sales of documents and publications	2,870,000	2,732,000
Royalties	33,000	65,000
Art work for other departments	3,000	35,000
	2,906,000	2,832,000
Excess of expenditure over revenue	$ 238,000	$ 1,142,000
Excess of expenditure over revenue provided for by—		
Supply and Services Vote 25 (Vote 20 in 1969–70)	$ 3,144,000	$ 3,974,000
Less: Sales proceeds credited to revenue	2,906,000	2,832,000
	$ 238,000	$ 1,142,000

In the previous year the cost of printing and binding of publications for free distribution was $216,000. In 1970-71 these costs were not divided between publications for sale and publications for free distribution.

The summary does not include the cost of major services provided without charge by other government departments as no estimate of the cost of such services for the publishing activities was made by Information Canada for 1970-71. The most recent estimate was for the year 1968-69 when the services were valued at $1,756,000.

The sales operation is handled by a mail order office in Hull, Que., six bookshops located in the larger Canadian cities, and a bulk publications stores warehouse located in Hull which supplies the sales outlets.

Sales of publications during the year totalled $2,870,000 but, because the cost of printing and binding of publications is not divided between publications sold and publications distributed free, it is not possible to state what part of the cost of $1,849,000 is applicable to the publications sold. Furthermore, because the inventory records are not complete, it is not possible to relate cost of sales to sales. In previous years (paragraph 291 of our 1970 Report) we reported the lack of adequate control over stocks of publications held for sale. This condition continues to exist.

Over the years a number of studies have been made of the printing and publishing activities of the Government, the most recent being completed in 1971. In its August 1971 report the Working Group on Publishing made up of government, industry and university consultants recommended that an inventory of publications be taken at once and kept up-to-date. The Working Group also stated that the recommendation contained in the June 1970 report of the Bureau of Management Consulting of the Department of Supply and Services concerning the development of inventory reporting systems to give total physical and financial control of the inventory should be implemented.

The inventory was reduced during the year by scrapping obsolete stocks of publications having a retail value of $435,000. It appears that the matter of inventory control may have been neglected during 1970-71 as the Working Group on Publishing recommended in August 1971 ". . . that an inventory be taken at once and a condemnation board be convened as soon as possible to dispose of obsolete publications or those surplus to requirements."

The cost of providing publishing and distribution services for government departments and agencies was not recovered.

No annual financial statements are prepared by Information Canada with respect to these publishing activities.

342. *National Film Board.* This Board, consisting of the Government Film Commissioner as Chairman and eight other members appointed by the Governor in Council, operates under the National Film Act, *R.S., c. N-7.* Its purposes are to initiate and promote the production and distribution of films in the national interest. With the exception of expenditure on equipment acquired for its own use, which has been charged to Secretary of State Vote 80, all expenditures of the Board are charged to the National Film Board Operating Account, including the cost of capital equipment acquired for the Canadian Government Photo Centre in Ottawa, as authorized by Vote L30, Appropriation Act No. 5, 1963, *1963, c.42* (see also paragraphs 56 and 252 of this Report). The Account is credited with all moneys received from operations of the Board, including the sale and rental of films and other visual materials; amounts provided by Secretary of State Vote 80, for program expenditures; and amounts transferred from appropriations of other government departments in respect of work undertaken for them.

The equity of the Crown in the Board at March 31, 1971 was $3,045,000 comprising capital equipment with a net book value of $2,984,000, including $137,000 for equipment of the Canadian Government Photo Centre, and working capital of $61,000.

The following is a summary of expense and income for the past two years:

	Year ended March 31	
	1971	1970
Expense—		
Production of films and other visual materials for:		
National Film Board	$ 5,903,000	$ 5,132,000
Government departments and others	3,976,000	4,219,000
	9,879,000	*9,351,000*
Distribution of films	3,843,000	4,191,000
Estimated value of major services provided without charge by government departments:		
Accommodation	1,940,000	1,401,000
Employee benefits	1,184,000	1,439,000
Accounting and cheque issue service	143,000	110,000
Carrying of franked mail	12,000	12,000
	3,279,000	*2,962,000*
Executive and administrative services	1,995,000	1,956,000
Provision for retroactive salary and wage increases	312,000	—
Depreciation on equipment	392,000	348,000
Exchequer Court award re fire loss	90,000	—
	19,790,000	18,808,000
Income—		
Sale of films and other visual materials	5,109,000	4,577,000
Rentals and royalties	1,012,000	906,000
Miscellaneous	39,000	82,000
Canadian Government Photo Centre—excess of income over expense	5,000	59,000
	6,165,000	5,624,000
Net expense	$ 13,625,000	$ 13,184,000
Portion of net expense provided for by—		
Secretary of State Vote 80 (Vote 55 in 1969–70)	$ 9,454,000	$ 9,426,000
Treasury Board Vote 5	114,000	465,000
Exchequer Court award re fire loss	90,000	—
	9,658,000	9,891,000
Less: Amount refundable	16,000	17,000
	9,642,000	9,874,000
Government departments which provided major services without charge	3,279,000	2,962,000
Depreciation	392,000	348,000
	13,313,000	13,184,000
Portion of net expense to be recovered in 1971–72 from the Treasury Board Reserve for salary revisions	312,000	—
	$ 13,625,000	$ 13,184,000

The increase of $771,000 for production of films and other visual materials for the Board relates mainly to fees paid to performers, researchers, writers, etc. The estimated value of major services provided without charge has not been allocated to the several activities of the Board because the Board does not wish to do this until it is required to pay for these services. The Exchequer Court award re fire loss, $90,000, is in respect of the settlement of damage claims arising from the destruction by fire of a warehouse used for the storage of films, which was referred to on page 237 of our 1968 Report.

The number of employees on strength decreased by 23 from 987 at the previous year-end to 964 at March 31, 1971.

343. *Passport Office.* Vote L22b of Appropriation Act No. 1, 1969, *1968-69, c.23,* authorizes a revolving fund for the purpose of operating the central and regional passport offices. The vote wording provides that "the amount outstanding at any one time under this authority [is] not to exceed $100,000".

The Crown's equity in the Passport Office Revolving Fund at March 31, 1971 was $232,000 represented by equipment financed from parliamentary appropriations or from operating surplus.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1971	1970
Income—		
Fees earned	$ 3,971,000	$ 4,403,000
Expense—		
Salaries and employee benefits	1,863,000	1,579,000
Passport materials and application forms	266,000	310,000
Accommodation	219,000	128,000
Passport operations at posts abroad	176,000	163,000
Postal services and postage	149,000	214,000
Telephones and telegrams	104,000	88,000
Professional and special services	79,000	98,000
Office stationery and supplies	43,000	55,000
Provision for replacement of capital assets	36,000	20,000
Information	30,000	34,000
Travel and removal	23,000	56,000
Repairs and replacements of office furniture and equipment	17,000	26,000
Other	17,000	4,000
	3,022,000	2,775,000
(Increase) decrease in inventory of passports in process	(3,000)	66,000
	3,019,000	2,841,000
Operating surplus	952,000	1,562,000
Less: Amount retained for acquisition of capital assets	—	166,000
Surplus for the year transferred from the Revolving Fund as revenue	$ 952,000	$ 1,396,000

The decrease in income of $432,000 resulted from a decline in the demand for passports.

The increase of $284,000 in salaries and employee benefits was due chiefly to the reclassification of positions and the staffing of three regional passport offices.The increase of $91,000 in accommodation expense was due to a full year's rental being paid in 1970-71 in respect of the regional passport offices whereas the premises had been rented for only part of 1969-70. The decrease of $65,000 in postal services and postage costs was due partly to the drop in volume of passports issued and partly to the fact that passports are now issued on an over-the-counter basis at regional offices. The decrease of $44,000 in passport materials expense resulted from there being no expenditure in 1970-71 comparable to the expenditure in 1969-70 made in respect of the new passport application form. The decrease of $33,000 in travel and removal expense resulted mainly from there being no large expenditures in 1970-71 comparable to those in 1969-70 for the transfer and training of regional office personnel.

Vote L22b of Appropriation Act No. 1, 1969, provides that the Fund is to be credited with "such portion as may be determined by the Treasury Board of the revenue derived from passport services". Although the Treasury Board has not formally determined the portion of the revenue to be credited to the Fund, the entire revenue from passport services during the year was credited thereto.

344. *Post Office.* The Post Office operates under authority of the Post Office Act, *R.S., c. P-14,* which provides that the Postmaster General shall administer, superintend and manage the Canada Post Office.

The following is a summary of the results of operations for the past two years as recorded by the Post Office in the Public Accounts:

	Year ended March 31	
	1971	1970
Gross postal revenue	$ 418,179,000	$ 430,378,000
Less: Expenses paid from revenue	55,106,000	52,232,000
Revenue from financial and miscellaneous services credited to expenditure	25,502,000	23,393,000
	80,608,000	*75,625,000*
Net postal revenue	337,571,000	354,753,000
Other revenue—		
Miscellaneous	97,000	263,000
Estimated:		
Value of mail and other services provided without charge to other government departments	11,643,000	10,225,000
Interest on Money Order Account	2,729,000	2,842,000
Interest on funds in Savings Bank Account	263,000	362,000
	14,732,000	*13,692,000*
	352,303,000	368,445,000

	Year ended March 31	
	1971	1970
Expenditure from parliamentary appropriations—		
Mail processing	$ 147,013,000	$ 130,511,000
Mail delivery	130,782,000	120,294,000
Mail transportation	59,472,000	62,177,000
Wicket services	29,904,000	30,111,000
Administration	26,927,000	20,816,000
Interest on Savings Bank accounts—Department of Finance	—	103,000
	394,098,000	364,012,000
Less: Revenue from financial and miscellaneous services credited to expenditure	25,502,000	23,393,000
	368,596,000	340,619,000
Estimated value of major services provided without charge by other government departments—		
Accommodation	40,966,000	36,738,000
Contributions to:		
Public Service Superannuation Account	33,996,000	28,876,000
Canada Pension Plan and Quebec Pension Plan	4,868,000	4,366,000
Employee group surgical-medical insurance	2,078,000	1,297,000
Accounting and cheque issue services	765,000	765,000
Employee compensation	417,000	433,000
	83,090,000	*72,475,000*
Provision for retroactive salary increases for 1970–71	1,209,000	8,298,000
	452,895,000	421,392,000
Net operating deficit	$ 100,592,000	$ 52,947,000

The decrease in gross postal revenue is attributed by the Post Office to the business lost as a result of the prolonged series of rotating strikes.

The $28 million increase in expenditure from parliamentary appropriations was due to increases of $30 million in salaries and allowances, $2 million in materials and supplies, $1 million in acquisition of equipment, less a $5 million decrease in mail conveyance costs.

In summarizing its operations the Post Office includes the following items as revenue although the Department of Finance, which benefits from the large balances in the Money Order Account and the Savings Bank Account, does not record corresponding expenditures:

Interest on Money Order Account at 7%	$ 2,729,000
Interest on funds in Savings Bank Account at 7%	263,000
Additional revenue recorded	$ 2,992,000

As stated in previous Reports (paragraph 290 in 1970) it is improper for a department to take unilateral action in such circumstances, and if the Post Office is to receive credit for the value of the balances held in these two Accounts, the Department of Finance must give recognition to these additional costs.

In our Reports for the past two years (paragraph 135 in 1970) we have suggested that consideration be given to the elimination of the statutory free carriage of first

class mail in order that the Post Office receive proper credit for all the service it provides and that departmental costs include all mailing costs. An amendment to the Act, *1970-71-72, c.53,* which was assented to on June 30, 1971, now provides that, with effect from April 1, 1972

> Mailable matter sent to or by any department of the Government of Canada is subject to Canada postage in accordance with such regulations as are made in that respect by the Governor in Council.

Thus from April 1, 1972 the Post Office is to be paid for all mail service it provides to government departments. However, the Post Office is still required to provide mail service without payment to the Speaker and Clerk of the Senate, the Speaker and Clerk of the House of Commons, Members of the Senate and of the House of Commons, the Parliamentary Librarian and the Associate Parliamentary Librarian.

Paragraphs 158 to 160 of this Report deal with several matters noted in the course of our examination of the Post Office.

The financial statements of the Post Office were not submitted to the Auditor General for certification.

345. *Race Track Supervision Revolving Fund.* Agriculture Vote L1b, Appropriation Act No. 1, 1970, *1969-70, c.24,* authorized the operation of a revolving fund for the purpose of providing race track supervision in Canada, to which shall be charged all administration expenses of such supervision and to which shall be credited all moneys received through the pari-mutuel levy under section 188 of the Criminal Code, *R.S., c. C-34.* The amount outstanding may not exceed $200,000. There was no amount outstanding at March 31, 1971.

The following is a summary of the results of operations for the year ended March 31, 1971:

Income—	
Levy of one-half of one percent of pari-mutuel bets at race tracks	$ 2,841,000
Other	41,000
	2,882,000
Expense—	
Race surveillance	1,878,000
Pari-mutuel supervision	805,000
Administration	183,000
	2,866,000
Profit for the year transferred from the Revolving Fund as revenue	$ 16,000

346. *Unemployment Insurance Fund.* The Unemployment Insurance Act, *R.S., c. U-2,* which provides for insurance against unemployment, is administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the Governor in Council.

The Act established the Unemployment Insurance Fund as a special account in the Consolidated Revenue Fund to which all contributions from insured employees and their employers, and the Federal Government contributions equivalent to one-fifth of the total employer-employee contributions, together with interest on investments, are credited, and to which benefit payments are charged.

Financial statements showing the operations of the Fund during the fiscal year and the state of the Fund at the end of the year are prepared annually by the Commission. In previous Reports attention has been drawn to the fact that the Act did not require that these financial statements be audited. Notwithstanding this, since 1962 the Commission, by agreement, has submitted its financial statements to the Auditor General for examination, and the statements for the year ended March 31, 1971, together with our report thereon to the Minister of Labour, are reproduced in the Public Accounts, Volume II, pages 12.8 to 12.10. Commencing with the year ending March 31, 1972, the accounts and financial transactions of the Unemployment Insurance Commission are to be audited annually by the Auditor General pursuant to section 15 of the Unemployment Insurance Act, 1971, *1970-71-72, c.48.*

The following is a summary of transactions for the past two years, together with the year-end balances at the credit of the Fund:

	Year ended March 31	
	1971	1970
Receipts—		
Contributions from employers and employees	$ 495,199,000	$ 491,783,000
Contributions from Canada	99,039,000	98,357,000
Income from investments	29,177,000	27,556,000
Penalties	199,000	164,000
	623,614,000	617,860,000
Disbursements—		
Benefit payments	758,119,000	542,058,000
Excess of disbursements over receipts	134,505,000	(75,802,000)
Balance at beginning of year	458,142,000	382,340,000
Balance at end of year	$ 323,637,000	$ 458,142,000

For the first time since 1963 disbursements from the Fund exceeded receipts. This was caused by a higher level of unemployment during the year. Benefit payments increased $216 million (40%) from $542 million in 1969-70 to $758 million in 1970-71. The following comparisons show the effects of the higher unemployment level:

	Year ended March 31	
	1971	1970
Average weekly benefit paid	$ 35.46	$ 33.36
Number of initial claims allowed	1,374,979	1,185,979
Average monthly percentage of the insured population drawing benefits	7.3%	5.8%
Average number of benefit weeks paid	14.4	14.7

The costs of administration of the Unemployment Insurance Commission, including those relating to the control and supervision of the Annuities Branch which was transferred from the Department of Labour to the Unemployment Insurance Commission effective April 1, 1970, are met by parliamentary appropriations and by government departments which provide accommodation for the Commission's offices throughout Canada, contributions to the Public Service Superannuation Account and Canada and Quebec Pension Plans and accounting and other services, without charge. The following is a summary of administration expenses for the past two years:

	Year ended March 31	
	1971	1970
Salaries, wages and allowances	$ 42,469,000	$ 36,354,000
Employee benefits	5,182,000	5,277,000
Accommodation	4,725,000	3,710,000
Office stationery, supplies and equipment	3,491,000	2,047,000
Travelling and removal expenses	2,280,000	1,901,000
Acquisition of furniture and miscellaneous equipment	1,482,000	318,000
Postage	1,347,000	1,312,000
Professional and special services	1,116,000	608,000
Accounting and cheque issue service	1,039,000	1,624,000
Telephones, telegrams and other communication services	1,000,000	698,000
Freight, express and cartage	258,000	141,000
Commission to Post Office Department	—	599,000
Other	705,000	855,000
	65,094,000	55,444,000
Less: Amount recovered from the Canada Pension Plan Account	396,000	523,000
	$ 64,698,000	$ 54,921,000
Administration expenses provided for by—		
Department of Labour Vote 5 (Vote 10 in 1969–70)	$ 53,432,000	$ 44,021,000
Government departments which provided certain major services without charge	11,266,000	10,900,000
	$ 64,698,000	$ 54,921,000

The increase of $9,777,000 in the administration cost of the Commission comprised mainly: an increase of $6,115,000 in the cost of salaries, wages and allowances, primarily attributable to a higher claim load; an increase of $1,164,000 in expenditure on furniture and equipment, consequent on extensive renovations of the Commission's offices using open-concept design and modular furniture; increases of $1,444,000 in the cost of stationery, supplies and equipment and $1,015,000 in the cost of accommodation; and decreases of $599,000 in the commission paid to the Post Office, as a result of the phase-out of contributions by the stamp-purchase method, and of $585,000 in the cost of accounting and cheque issue service, as the Commission's computer system, which had been installed in Ontario in 1969, was extended to the Atlantic, Prairie and Pacific regions. The cost of administration of the Annuities Branch, $1,283,000, which had no counterpart in the prior year, formed part of the various increases in the cost of administration of the Commission.

In keeping with past practice, we reported to the Chief Commissioner on each of the examinations of field offices made during the year. Our examinations are designed primarily to test the adequacy of the internal control over contributions, other income, benefit payments and the collection of overdue contributions, penalties and benefit overpayments. The extent to which adjudication of claims complies with the provisions of the Act and regulations is also tested. Prompt attention was given to all audit observations and corrective action was taken where required. In appraising the validity of benefit awards, no attempt is made by us to verify the accuracy or completeness of information regarding claimants contained in the records of the Commission beyond questioning apparent deficiencies in the records. This aspect of the verification of claims is carried out by the Commission's own investigation-enforcement staff. Also no attempt is made to audit the accounts of employers to see that employer-employee contributions are fully made to the Unemployment Insurance Fund and that each worker is credited with the proper contributions. These records are verified by the Commission's revenue control branch.

In last year's Report (paragraph 79) reference was made to the inadequacy of the liaison between field offices of the Commission and the Canada Manpower Centres that had been disclosed by our review of the procedures of these offices. This subject is further dealt with in paragraph 92 of this Report.

Special Audits and Examinations

347. In addition to the examinations of the accounts of the departments and agency and proprietary Crown corporations referred to in this Report, the following special audits and examinations were made by the Audit Office during the year, most of them in accordance with specific directions contained in various statutes:

The Army Benevolent Fund Board
The Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children
The Canada Council
The Custodian
Economic Council of Canada
Exchange Fund Account
Government of the Northwest Territories
Government of the Yukon Territory
International Development Research Centre
Medical Research Council
National Arts Centre Corporation
National Museums of Canada
Roosevelt Campobello International Park Commission
Royal Canadian Mint stocks
Royal Canadian Mounted Police (Dependants) Pension Fund
Science Council of Canada
Standards Council of Canada

348. *The Army Benevolent Fund Board.* This Board was constituted by the Army Benevolent Fund Act, *R.S., c. A-16,* and consists of five members appointed by the Governor in Council. The Act provides for a special account in the Consolidated Revenue Fund called the Army Benevolent Fund to which certain moneys were credited and from which there shall be paid

> to or for the benefit of [World War II] veterans or their dependants or the widows or children or former dependants of deceased veterans such amounts as the Board may from time to time determine

together with the expenses incurred in carrying out the provisions of the Act.

The Act directs that the Board be governed by the following principles:

(a) plans shall be formulated on the assumption that there will be prospective beneficiaries for fifty years from the establishment of the Fund [in 1947];

(b) no grant is to be made by way of relief from the Fund where adequate relief is, at the time of the application, available from federal, provincial or municipal governmental sources;

(c) where grants are made to assist in the education of dependants of veterans or of children of deceased veterans, bursaries shall be granted contingent on continued need and satisfactory progress and not as competitive scholarships based on academic standing; and

(d) amounts paid out of the Fund are not recoverable unless obtained by fraud or misrepresentation.

The accounts of the Board were examined for the year ended March 31, 1971 pursuant to section 11 of the Act and our report was submitted to the Chairman and members of the Board with a copy being provided to the Minister of Veterans Affairs.

Receipts amounted to $283,000 of which $271,000 was derived from interest on deposits with the Receiver General and $12,000 from interest on Canada bonds. Disbursements totalled $564,000 consisting of $446,000 in grants to or on behalf of World War II veterans and $118,000 for administrative and case-work expense. The latter was a net amount after deducting a fee of $48,000 for management of the financial program of the Canadian Army Welfare Fund and a grant of $18,000 from the Department of Veterans Affairs to assist in defraying administrative expenses.

After absorbing the excess of disbursements over receipts amounting to $281,000, the balance of the Fund was $4,180,000 at March 31, 1971 of which $3,917,000 was on deposit with the Receiver General, $256,000 was invested in Canada bonds and $7,000 was represented by accountable advances and prepaid expense.

349. *The Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* This Board and the Fund were established in 1959 by the Queen Elizabeth II Canadian Research Fund Act, *R.S., c. Q-1,* to assist individuals or organizations to undertake or carry on research into the diseases of children and the causes, prevention and treatment of such diseases. The Board, with headquarters in Ottawa, consists of a chairman and six members. Secretarial and other administrative and technical services and facilities were provided without charge by the Medical Research Council.

As required by section 14 of the Act, we have audited the accounts and financial transactions of the Board for the year ended March 31, 1971 and have reported thereon to the Board and to the Prime Minister.

The Act provided $1 million for the Fund and permits the Board to accept gifts for its purposes. The following is a summary of the Board's transactions for the year, together with comparable figures for the preceding year:

	Year ended March 31	
	1971	1970
Principal of Fund at beginning of year	$ 913,000	$ 955,000
Earnings on investments	63,000	62,000
	976,000	1,017,000
Awards approved during year	18,000	125,000
Less: Cancellation of awards approved in prior years	15,000	21,000
	3,000	104,000
Principal of Fund at end of year	$ 973,000	$ 913,000

Two categories of awards have been established by the Board of Trustees, namely "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children. The value of a fellowship ranges from $5,300 to $9,500 per annum, depending upon qualifications, plus a travel grant and children's allowances where applicable. Also, a research allowance of $500 is awarded to the supervisor of each fellow. Two new fellowships totalling $15,000 were awarded during the year. In addition, travel grants, children's allowances and research allowances totalling $3,000, relating to fellowships, were approved.

Awards in the second category cover the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the Board of Trustees with regard to these appointments provide for payments of $10,000 or more per annum, depending upon qualifications, for the first three years and $5,000 per annum for the next three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the Board. No such appointments were made during the year.

The Board continues to support six scientist appointees of prior years, and the outstanding liability of $135,000 in this connection, plus the outstanding liability of $1,500 for three fellowships awarded in the preceding year, was included in the total provision of $152,000 for awards approved, appearing on the balance sheet of the Board at March 31, 1971.

350. *The Canada Council.* The Council, consisting of a chairman, vice-chairman and not more than nineteen other members appointed by the Governor in Council, was established by the Canada Council Act, *R.S., c. C-2,* to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences.

As required by section 22 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1971 and have reported thereon to the Council and to the Secretary of State.

The financial statements of the Council are not reproduced in the Public Accounts as are the statements of Crown corporations and other operating activities. If financial information additional to the following is required, reference should be made to the annual report of the Council.

An Endowment Fund of $50 million was established under the Act. The income earned on the investments of the Fund together with grants from Canada is used to meet administration expense and other expenditure for purposes of the Act, except for capital assistance grants to universities which were made from the University Capital Grants Fund up to the date of the closing out of the Fund. Permissible

expenditure includes, in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performances and publications; exchanges with other countries and organizations or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

During the year the Council received from Canada an unconditional grant of $24,200,000 for the general purposes of the Act. This amount is accounted for within the Endowment Account in accordance with a decision of the Council.

The transactions of the Endowment Account for the year, with the comparable figures for the preceding year, are summarized as follows:

	Year ended March 31	
	1971	1970
Surplus at beginning of year	$ 1,467,000	$ 481,000
Income—		
Grant from Canada	24,200,000	23,700,000
Interest and dividends earned	5,175,000	4,975,000
Cancelled grants and refunds	1,164,000	815,000
	30,539,000	*29,490,000*
	32,006,000	29,971,000
Expenditure—		
Grants	28,587,000	26,672,000
Administration expense, less recoveries	2,131,000	1,832,000
	30,718,000	28,504,000
Surplus at end of year	$ 1,288,000	$ 1,467,000

A University Capital Grants Fund of $50 million was established by the Act from which grants were made to universities and similar institutions of higher learning by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants were paid out of the principal and accumulated income of the Fund. With final payments of $2,208,000 being made to qualifying institutions, the University Capital Grants Fund was closed out during the year. The total amount distributed by way of capital assistance grants in respect of building construction projects since the inception of the Fund was $68,714,000, comprising the original principal of $50 million paid to the Council in 1957 and $18,714,000 of income from investments. Since the allocation and distribution of accumulated interest and profits was commenced in 1964, we have expressed the opinion that the "hotch-pot" method of allocation and the use of the 1956 census by the Council were not in accordance with section 17(2) of the Canada Council Act. In its Sixth Report 1964-65 the Public Accounts Committee recommended that steps be taken to seek amending legislation to provide clear authority for the procedure being followed, a recommendation

which it reiterated in its Third Report 1966-67 when it requested the Council to formally request the Government to give consideration to the required amending legislation with the object of having it considered by Parliament prior to the final closing out of the Fund. No such amending legislation has been submitted by the Government for the consideration of Parliament and implementation of the Committee's recommendation is no longer feasible due to the efflux of time.

The Council may, under section 20 of the Act, acquire money, securities or other property by gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms, if any, upon which they are made available to the Council. With the exception of parliamentary grants, moneys or property received by the Council pursuant to this section are presented in a consolidated balance sheet designated "Special Funds".

The principal of funds received by the Council pursuant to section 20 of the Act, together with the net profit on disposal of securities, held as a reserve against possible future investment losses, at March 31, 1971 and the comparable amounts at March 31, 1970 were:

	March 31, 1971	March 31, 1970
The Izaak Walton Killam Memorial Fund for Advanced Studies	$ 10,648,000	$ 10,183,000
Special Scholarship Fund	1,774,000	1,819,000
Molson Prize Fund	814,000	822,000
Lynch-Staunton Fund	704,000	704,000
John B.C. Watkins Estate	35,000	26,000
	$ 13,975,000	$ 13,554,000

The surplus earnings of these Funds which were available at March 31, 1971 for the purposes designated and comparable amounts at March 31, 1970 were:

	March 31, 1971	March 31, 1970
The Izaak Walton Killam Memorial Fund for Advanced Studies	$ 585,000	$ 594,000
Special Scholarship Fund	607,000	473,000
Molson Prize Fund	13,000	14,000
Lynch-Staunton Fund	96,000	53,000
	$ 1,301,000	$ 1,134,000

During the year income earned by these Funds, grants authorized, charges paid and the amounts added to surplus were as follows:

	Income	Grants authorized	Administrative and other charges	Added to surplus
The Izaak Walton Killam Memorial Fund for Advanced Studies	$ 642,000	$ 604,000	$ 47,000	$ (9,000)
Special Scholarship Fund	134,000	—	—	134,000
Molson Prize Fund	46,000	45,000	2,000	(1,000)
Lynch-Staunton Fund	43,000	—	—	43,000
	$ 865,000	$ 649,000	$ 49,000	$ 167,000

Paragraphs 67 to 69 of this Report deal with certain matters noted in the course of our examination of the financial transactions of the Council.

351. *The Custodian.* In accordance with Regulation 6 of the Revised Regulations Respecting Trading with the Enemy (1943) as set out in the schedule to The Trading with the Enemy (Transitional Powers) Act, *1947, c.24,* the Custodian is appointed "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him". Pursuant to section 10 (which was neither consolidated nor repealed) of the original Department of Consumer and Corporate Affairs Act, *1967-68, c.16,* the Minister of Consumer and Corporate Affairs is the Custodian of Enemy Property. The Deputy Minister is the Deputy Custodian. The Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for the year ended December 31, 1970 was made to the Minister of Consumer and Corporate Affairs.

The assets under the administrative control of the Custodian, which were valued in accordance with bases explained in an addendum to his statement of assets and liabilities (Public Accounts, Volume II, page 3.12), increased by $108,000 to $3,068,000 at December 31, 1970. The increase in assets resulted from an increase of $72,000 in the equity in holding companies, the receipt of additional assets valued at $22,000 and revenue of $18,000 from securities, less an exchange loss of $3,000 arising from the freeing of the Canadian dollar, and the release of assets amounting to $1,000.

Under the Regulations, the Custodian may charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2% of the value of the property including the income therefrom. He is also permitted to employ such part of the property vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the Regulations.

In addition to the income from fees, any income received from vested assets which consist of, or are converted into, cash or Canada bonds is credited to the Custodian's Office Administration Account, from which expenses of the Office are paid. We have drawn attention to this procedure in past years because it is not consistent with the treatment of income arising from other assets vested in the Custodian. In February 1967 we were informed by the Deputy Custodian that, on the basis of his interpretation of an opinion given by the Department of Justice in 1947 and discussions with officers of that Department, he was satisfied that the Custodian was acting within his legal rights in retaining this income from the bank deposits and Canada bonds included among the vested assets. It is our opinion, however, that the Custodian is empowered to retain the income from any asset vested in him only to the extent that it is required to meet expenses incurred with respect to that particular estate plus a percentage of general expenses.

There was an excess of income over expense of $96,000 in the Custodian's Office Administration Account in 1970 which was added to the surplus account, increasing the balance to $1,018,000 at the year-end. A summary of income and expense for the past two years follows:

	Year ended December 31	
	1970	1969
Income—		
Income from investments	$ 163,000	$ 148,000
Interest on bank deposits	5,000	5,000
	168,000	153,000
Expense—		
Salaries and employee benefits	62,000	73,000
Office rent	6,000	7,000
Other	4,000	1,000
	72,000	81,000
Excess of income over expense	$ 96,000	$ 72,000

Increased rates of interest and higher bond holdings account for the major portion of the increase in income from investments.

352. *Economic Council of Canada.* The Council, consisting of a chairman, two directors and twenty-five other members appointed by the Governor in Council, was established as a corporation by the Economic Council of Canada Act, *R.S., c. E-1,* to advise how Canada can achieve the highest possible levels of employment and efficient production.

As required by section 20 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1971 and have reported thereon to the Council and to the Prime Minister.

The following is a summary of the expense of the Council for the past two years:

	Year ended March 31	
	1971	1970
Salaries and employee benefits	$ 1,520,000	$ 1,483,000
Professional and special services	238,000	198,000
Accommodation	146,000	98,000
Office equipment, furniture, stationery and supplies	63,000	61,000
Travel and removal	54,000	47,000
Publication of reports and studies	31,000	31,000
Telephone, telegrams and postage	26,000	24,000
Miscellaneous	6,000	5,000
Total expense	$ 2,084,000	$ 1,947,000

	Year ended March 31	
	1971	1970
Total expense provided for by—		
Privy Council Vote 25	$ 1,739,000	$ 1,630,000
Treasury Board Vote 5	7,000	—
Government departments which provided major services without charge.	338,000	317,000
	$ 2,084,000	$ 1,947,000

The expense for 1970-71 included $38,000 for studies begun in 1966, on which a total of $474,000 has been expended to March 31, 1971, for a special reference from the Government concerning the responsibilities of the Department of the Registrar General of Canada (now the Department of Consumer and Corporate Affairs) relating to: interests of the consumer; combines, mergers, monopolies and restraint of trade; and patents, trade marks, copyrights and registered industrial designs. The third and final report concerning this reference was made to the Prime Minister on March 23, 1971 and tabled in the House on the same date.

353. *Exchange Fund Account.* This Account was established in 1935 "to aid in the control and protection of the external value of the Canadian monetary unit" and now operates under Part II of the Currency and Exchange Act, *R.S., c. C-39.*

As required by section 18(2) of the Act, we have audited the Exchange Fund Account and the transactions connected therewith for the year ended December 31, 1970 and have reported thereon to the Minister of Finance. This section requires a certificate to be given annually to Parliament and I now certify that, in my opinion, the transactions in connection with the Account have been in accordance with the provisions of the Act and that the records of the Account show truly and clearly the state of the Account.

The advances to the Exchange Fund Account from the Consolidated Revenue Fund at December 31, 1970 and 1969 were represented by the following:

	December 31, 1970	December 31, 1969
Canadian dollars	$ 819,000	$ 750,000
United States dollars, and securities with accrued interest	2,834,826,000	1,703,405,000
International Bank for Reconstruction and Development bonds, with accrued interest	51,722,000	38,620,000
International Monetary Fund note, with accrued interest	121,652,000	103,448,000
International Monetary Fund special drawing rights, with accrued interest	184,489,000	—
Gold	799,600,000	943,067,000
Suspense	(2,324,000)	65,000
	3,990,784,000	2,789,355,000

	December 31, 1970	December 31, 1969
Deduct:		
Due to the Consolidated Revenue Fund, in accordance with section 16 of the Currency and Exchange Act:		
Earnings for the year on investments	$ 174,797,000	$ 104,237,000
Net profit for the year from trading operations in foreign exchange, gold and securities	688,000	836,000
	175,485,000	105,073,000
	3,815,299,000	2,684,282,000
Deficit (Surplus)	231,583,000	(30,282,000)
Advances from the Consolidated Revenue Fund	$4,046,882,000	$ 2,654,000,000

The earnings on investments and the net profit from trading operations in foreign exchange, gold and securities, amounting to $175,485,000, have since been paid into the Consolidated Revenue Fund as revenue of Canada.

On May 31, 1970 the Minister of Finance announced that, for the time being, Canada would no longer maintain the value of the Canadian dollar within the agreed margins of plus or minus one per cent of the official par of exchange and, subsequently, the Canadian dollar appreciated. At December 31, 1970 the closing market rate of the United States dollar was $1.01125 and the value of the United States dollar holdings at that date was $3,992,289,000, the resulting revaluation loss being $261,865,000. This revaluation loss, which was not recouped from a parliamentary appropriation, resulted in a net deficit in the Account of $231,583,000 at December 31, 1970.

354. *Government of the Northwest Territories.* The Northwest Territories Act, *R.S., c. N-22,* provides for the appointment by the Governor in Council of a chief executive officer for the Territories, to be known as the Commissioner, and for a Council of the Territories consisting of fourteen members, of whom ten are elected and four are appointed by the Governor in Council. The Commissioner in Council is empowered by the Act to make ordinances for the governing of the Territories in fields paralleling those normally within provincial jurisdiction.

As required by section 23 of the Act, we have examined the accounts and financial transactions of the Territories for the year ended March 31, 1971 and have reported thereon to the Council.

The following is a summary of expenditure and revenue of the Territories for the year ended March 31, 1971, with comparable amounts for the preceding year:

	Year ended March 31 1971	1970
Expenditure—		
Operation and maintenance:		
Public Works	$ 15,564,000	$ 7,459,000
Education	13,364,000	7,465,000
Administration	7,766,000	5,205,000
Social Development	4,849,000	3,159,000
Local Government	4,761,000	2,560,000
Health	3,891,000	3,350,000
Industry and Development	3,598,000	1,972,000
Territorial Secretary	1,557,000	1,119,000
Territorial Treasurer	1,270,000	721,000
Centennial	365,000	225,000
	56,985,000	*33,235,000*
Interest on loans from Canada	1,313,000	1,021,000
Project capital	13,939,000	7,023,000
	72,237,000	41,279,000
Revenue—		
Federal grants:		
Operating	26,598,000	8,718,000
Loan amortization	2,068,000	1,616,000
	28,666,000	*10,334,000*
Operation and maintenance:		
Taxes	2,880,000	2,130,000
Liquor profits	2,401,000	2,148,000
Housing rentals	1,850,000	735,000
Heating fuel, power, water and sewer	640,000	169,000
Industry and Development projects	523,000	—
Licences and fees	510,000	683,000
Bank interest and foreign exchange	391,000	454,000
Other	685,000	305,000
	9,880,000	*6,624,000*
Expenditure recoveries under Federal-Territorial cost-sharing agreements:		
Transfer grants for additional programs assumed during the year	13,718,000	12,492,000
Indian and Eskimo housing	2,332,000	906,000
Health	2,290,000	2,185,000
Public Works	1,075,000	857,000
Social Development	536,000	238,000
Education	364,000	191,000
Local Government	161,000	103,000
Industry and Development	23,000	23,000
Personnel	2,000	—
Centennial	—	290,000
	20,501,000	*17,285,000*
Project capital recoveries	2,802,000	2,143,000
	61,849,000	36,386,000
Excess of expenditure over revenue	$ 10,388,000	$ 4,893,000

Of the amount of $906,000 received in the previous year in the form of advances from the Federal Government for the Indian and Eskimo housing program, only

$776,000 has been accepted by the Federal Government as the costs of operation. The balance of $130,000 is to be accounted for along with the further $2,332,000 received during the year. While a claim in excess of the outstanding advances of $2,462,000 has been submitted, a liability could arise in the event that the claim is accepted by the Federal Government in an amount less than the outstanding advances.

355. *Government of the Yukon Territory.* The Yukon Act, *R.S., c. Y-2,* provides for the appointment by the Governor in Council of a chief executive officer for the Territory, to be known as the Commissioner, and for the election of a Council composed of seven members. The Commissioner in Council is empowered by the Act to make ordinances for the governing of the Territory in fields normally within provincial jurisdiction.

The accounts and financial transactions of the Territory are subject to examination by the Auditor General of Canada in accordance with section 26 of the Act and accordingly we have made an examination for the year ended March 31, 1971 and have reported thereon to the Council.

During the year expenditure on campground maintenance was provided for in the Travel and Information appropriation and on recreation and amateur sports in the Education appropriation. In 1969-70 this expenditure had been provided for in the Engineering appropriation and the General appropriation respectively. In addition, revenue from licences, fees and permits collected under the Liquor Ordinance during the year was included in the Liquor Control Operating Statement, whereas in previous years this revenue had been included with licence revenue in the Statement of Expenditure and Revenue. For comparative purposes the 1969-70 figures have been adjusted accordingly.

The following is a summary of expenditure and revenue of the Territory for the year ended March 31, 1971, with comparable amounts for the preceding year:

	Year ended March 31	
	1971	1970
Expenditure—		
Operation and maintenance:		
Personnel services	$ 6,336,000	$ 5,451,000
Engineering	3,114,000	2,602,000
Education	1,452,000	1,354,000
Local Government	1,256,000	984,000
Yukon Hospital Insurance Service	1,240,000	1,108,000
General	820,000	520,000
Welfare	756,000	614,000
Health	537,000	447,000
Travel and Information	155,000	156,000
Correctional Institute	132,000	108,000
Other	301,000	259,000
	16,099,000	*13,603,000*

	Year ended March 31 1971	1970
Interest on loans from Canada	$ 1,340,000	$ 891,000
Project capital	7,265,000	8,890,000
	24,704,000	23,384,000
Revenue—		
Federal grants:		
Operating	4,064,000	5,306,000
Loan amortization	1,858,000	1,331,000
Loan interest	164,000	117,000
	6,086,000	*6,754,000*
Operation and maintenance:		
Taxes	3,073,000	2,391,000
Liquor profits	1,578,000	1,525,000
Licences	586,000	582,000
Interest on bank deposits	140,000	189,000
Other	157,000	138,000
	5,534,000	*4,825,000*
Expenditure recoveries (including $4,359,000 under Federal-Territorial cost-sharing agreements):		
Engineering	2,259,000	1,866,000
Welfare	948,000	622,000
Yukon Hospital Insurance Service	754,000	699,000
Education	581,000	448,000
Local Government	487,000	532,000
General	161,000	—
Other	110,000	140,000
	5,300,000	*4,307,000*
Project capital recoveries	2,523,000	3,339,000
	19,443,000	19,225,000
Excess of expenditure over revenue	$ 5,261,000	$ 4,159,000

356. *International Development Research Centre.* The Centre, consisting of a Board of Governors composed of a chairman, president and not more than nineteen other governors appointed by the Governor in Council, was established by the International Development Research Centre Act, *R.S. (1st. Supp.), c.21,* to initiate, encourage, support and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical and other knowledge to the economic and social advancement of those regions. The headquarters of the Centre is in Ottawa.

As required by section 21 of the Act, we have audited the accounts and financial transactions of the Centre from its establishment on May 13, 1970 to March 31, 1971 and have reported thereon to the Centre and to the Secretary of State for External Affairs.

Section 20 of the Act requires the establishment in a chartered bank of an account to be known as the International Development Research Centre Account, which is to be credited with all amounts realized by the Centre under the Act. Notwithstanding this the Centre has established and is operating another account in a chartered bank. The Centre should seek amending legislation that will permit it to establish such bank accounts as are necessary to conduct its business.

The financial statement of the Centre has not been reproduced in the Public Accounts as are the statements of Crown corporations and other operating activities. If financial information additional to the following is required reference should be made to the annual report of the Centre.

The following is a summary of operations from the establishment of the Centre on May 13, 1970 to March 31, 1971:

Income—	
Grants from Canada	$ 2,444,000
Interest	70,000
Fees	10,000
	2,524,000
Expense—	
Administration:	
Salaries, allowances and employee benefits	384,000
Office furnishings and equipment	124,000
Staff travel and removal	80,000
Accommodation	48,000
Governors' honoraria, travel and meetings	43,000
Professional and special services	25,000
Office supplies and expense	17,000
Communications	14,000
Sundry	16,000
	751,000
Research projects, seminars, workshops, etc.	88,000
	839,000
Excess of income over expense	$ 1,685,000

357. *Medical Research Council.* The Council, consisting of a president and not more than twenty-one other members appointed by the Governor in Council, operates under the Medical Research Council Act, *R.S., c. M-9.* Its function is to promote, assist and undertake basic, applied and clinical research in Canada in the health sciences, other than public health research.

As required by section 16 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1971 and have reported thereon to the Council and to the Minister of National Health and Welfare.

The following is a summary of the Council's expenditure for the year, together with comparable figures for the preceding year:

	Year ended March 31	
	1971	1970
Scholarships and grants—		
Grants in aid of research	$ 22,479,000	$ 20,771,000
Direct personnel support	8,113,000	7,718,000
Research promotion	3,370,000	2,402,000
	33,962,000	*30,891,000*
Administration—		
Salaries, wages and employee benefits	251,000	212,000
Committee meetings	82,000	67,000
Communications	43,000	35,000
Duplicating	24,000	25,000
Publications	23,000	8,000
Professional and special services	18,000	16,000
Accounting and cheque issue services	18,000	14,000
Other	39,000	36,000
	498,000	*413,000*
Total expenditure	$ 34,460,000	$ 31,304,000
Total expenditure provided for by—		
National Health and Welfare Vote 50 (Vote 55 in 1969-70)	$ 33,962,000	$ 30,891,000
National Health and Welfare Vote 45 (Vote 50 in 1969-70)	403,000	324,000
Government departments which provided major services without charge	95,000	89,000
	$ 34,460,000	$ 31,304,000

The $39,000 increase in salaries, wages and employee benefits was due to salary increases and an increase in staff from 17 to 20.

Refunds of previous years' expenditure, $179,000, were recorded as non-tax revenue of the Department of National Health and Welfare. At March 31, 1971, the Council had outstanding commitments of approximately $40,000,000 in respect of future grants and scholarships awarded, payments being subject to the provision of funds by Parliament.

358. *National Arts Centre Corporation.* The National Arts Centre Act, *R.S., c. N-2,* established the National Arts Centre Corporation consisting of a Board of Trustees composed of a chairman, a vice-chairman, and nine other members appointed by the Governor in Council and the persons from time to time holding the five public offices named in the Act. The objects of the Corporation are to operate and maintain the National Arts Centre, to develop the performing arts in the national capital region and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

The cost of the National Arts Centre including furnishings and equipment to March 31, 1971 amounted to $46.2 million which was provided from parliamentary appropriations of the Department of the Secretary of State. The Centre is not included among the assets of the Corporation but has been leased at a dollar per

year from the Department of Public Works for a period of twenty years. Under the terms of the lease, the Corporation is responsible for maintenance and operation of the building but is not required to pay rent or provide for interest and depreciation charges. Consequently, the accounts and financial statements of the Corporation do not reflect the true costs of operating the National Arts Centre. (See paragraph 95 of this Report.)

As required by section 16 of the Act, we have audited the accounts and financial transactions of the Corporation for the year ended March 31, 1971 and have reported thereon to the Chairman of the Board with a copy of the report being provided to the Secretary of State.

At March 31, 1971 the proprietary equity was $567,000 in the form of working capital and is the amount by which the annual parliamentary appropriations have exceeded the net cost of operations since the opening of the Centre.

The appropriation for the Centre provided by Secretary of State Vote 75 was $2,625,000 or $419,000 more than the net cost of operations of the Centre for the year which was $2,206,000 compared with $2,817,000 in the previous year.

The following is a summary of the Corporation's operations for the past two years:

	Year ended March 31	
	1971	1970
Expense—		
Direct costs of concerts and theatrical performances:		
Visiting attractions	$ 1,121,000	$ 873,000
National Arts Centre Orchestra	797,000	486,000
Regular theatre programs	767,000	601,000
Opening festival	—	517,000
	2,685,000	*2,477,000*
General and administration:		
Salaries and employee benefits	937,000	876,000
Utilities	307,000	316,000
Building maintenance	286,000	174,000
Security guards, ushers and guides	148,000	149,000
Office supplies	56,000	74,000
Telephone and telegraph	46,000	41,000
Advertising and promotion	45,000	249,000
Employees' travel and duty entertainment	39,000	32,000
Other	73,000	163,000
	1,937,000	*2,074,000*
	4,622,000	4,551,000
Income—		
Concerts and theatrical performances:		
Visiting attractions	917,000	657,000
National Arts Centre Orchestra	327,000	172,000
Regular theatre programs	294,000	217,000
Canada Council grants	195,000	199,000
Opening festival	—	209,000
	1,733,000	*1,454,000*

	Year ended March 31	
	1971	1970
Other:		
Parking	$ 373,000	$ 288,000
Rentals	131,000	89,000
Interest	116,000	69,000
Miscellaneous	66,000	30,000
	686,000	*476,000*
	2,419,000	1,930,000
Excess of expense over income	2,203,000	2,621,000
Add: Loss on restaurant operations	3,000	196,000
Net cost of operations, not including interest and depreciation charges connected with the National Arts Centre building	$ 2,206,000	$ 2,817,000

The Centre was in actual operation for only ten months in 1969-70 but in that period had non-recurring costs in connection with its inauguration.

359. *National Museums of Canada.* This Corporation was established by the National Museums Act, *R.S., c. N-12,* and consists of a Board of Trustees composed of a Chairman, a Vice-Chairman, the Director of the Canada Council, the President of the National Research Council of Canada and ten other members appointed by the Governor in Council. The purposes of the Corporation, comprising the National Gallery of Canada, the National Museum of Natural Sciences, the National Museum of Man and the National Museum of Science and Technology, are to demonstrate the products of nature and the works of man so as to promote interest therein throughout Canada and to disseminate knowledge thereof.

As required by section 21 of the Act, we have audited the accounts and financial transactions of the Corporation for the year ended March 31, 1971 and have reported thereon to the Chairman of the Board, with a copy of the report being provided to the Secretary of State.

The following is a summary of the expenditure and revenue of the Corporation for the past two years:

	Year ended March 31	
	1971	1970
Expenditure—		
Administration, operation and maintenance:		
Salaries, wages and employee benefits	$ 4,339,000	$ 3,636,000
Accommodation	3,363,000	2,904,000
Professional and special services	805,000	616,000
Protective services	574,000	550,000
Travel	235,000	258,000
Materials and supplies	212,000	262,000
Office supplies and equipment including books	154,000	202,000
Publications	149,000	229,000
Communications	132,000	109,000

	Year ended March 31	
	1971	1970
Motion picture production and distribution	$ 121,000	$ 10,000
Consulting and advisory services	107,000	93,000
Design and display services	107,000	113,000
Other	284,000	333,000
	10,582,000	*9,315,000*
Works of art, artifacts and other objects	1,109,000	1,449,000
Equipment and furnishings	246,000	385,000
	11,937,000	11,149,000
Revenue—		
Bequests, etc.—National Museums Trust Account	61,000	—
Interest	56,000	—
Sales of publications, slides, photographs, etc.	22,000	7,000
Refunds of previous years' expenditure	20,000	9,000
Services and service fees	19,000	22,000
Operating profit—National Museums Special Account	2,000	—
	180,000	38,000
Excess of expenditure over revenue	$ 11,757,000	$ 11,111,000
Excess of expenditure over revenue provided for by—		
Secretary of State Vote 90 (Vote 70 in 1969-70)	$ 8,210,000	$ 7,339,000
Secretary of State Vote L144b	—	50,000
Government departments which provided major services without charge	3,974,000	3,411,000
	12,184,000	10,800,000
Less:		
Increases in balance of special accounts:		
National Museums Purchase Account	152,000	(399,000)
National Museums Special Account	133,000	42,000
National Museums Trust Account	61,000	—
	346,000	*(357,000)*
Increase in inventory—National Museums Special Account	20,000	8,000
Amount transferred to Secretary of State as revenue of Canada	61,000	38,000
	427,000	(311,000)
	$ 11,757,000	$ 11,111,000

The increase of $703,000 in salaries, wages and employee benefits was due to additional remuneration and a staff increase of 38, from 370 in 1969-70 to 408 in 1970-71. The increase of $459,000 in the cost of accommodation was due to the occupation of additional space and an increase in rental rates. The increase of $111,000 in motion picture production and distribution was due mainly to a decision to produce new films for the National Museum of Man and the National Museum of Natural Sciences.

In accordance with section 10 of the Act, three special accounts, the National Museums Purchase Account, the National Museums Special Account and the National Museums Trust Account, are operated within the Consolidated Revenue Fund.

All moneys appropriated by Parliament for the purchase of objects for the collections of the Corporation are credited to the National Museums Purchase Account. The increase of $152,000 in the balance of the Account represents the amount by which the $1,166,000 provided by Secretary of State Vote 90 and interest of $55,000 received during the year for the period April 1, 1968 to March 31, 1971 exceeded the $1,069,000 expended from the Account on the acquisition of works of art, artifacts and objects. The balance in the Account at March 31, 1971 was $179,000. An additional $40,000 was expended for the purchase of works of art from the appropriation provided for management and administrative support. (See also paragraph 146 of this Report.)

All moneys appropriated by Parliament for the acquisition or publication and the sale to the public of books, pamphlets, replicas and other materials, and the proceeds from sales, are credited to the National Museums Special Account. The increase of $133,000 in the balance of the Account represents the amount by which the $150,000 provided by Secretary of State Vote 90 and $12,000 from the sales of books, pamphlets, replicas and other materials exceeded the $29,000 expended on acquisition and publication of items for sale. The balance in the Account at March 31, 1971 was $179,000.

All moneys received by the Corporation by gift, bequest or otherwise are credited to the National Museums Trust Account. The increase of $61,000 in the balance of the Account results from the receipt of: bequests of $45,000; the balance of $15,000 in the Aviation Trust Fund formerly administered by the National Research Council of Canada; a contribution of $1,000 from the United States Government to help defray transportation costs of the Moon Rock Exhibit; and interest of $1,000 earned during the period April 1, 1968 to March 31, 1971; offset by an expenditure of $1,000 for transportation of the Moon Rock Exhibit. The balance in the Account at March 31, 1971 was $64,000.

Paragraph 147 of this Report deals with a contract cancellation noted in the course of our examination of the financial transactions of the Corporation.

360. *Roosevelt Campobello International Park Commission.* This Commission was established by an agreement between Canada and the United States of America to administer the Roosevelt Campobello International Park, on Campobello Island, N.B., as a memorial to President Franklin Delano Roosevelt. Implementing legislation was enacted in Canada by the Roosevelt Campobello International Park Commission Act, *1964-65, c.19.* The Commission consists of six members, three appointed by the Government of Canada and three by the Government of the United States of America.

Grants to the Commission from the Canadian and United States Governments are made in United States dollars and the books are kept in that currency. Consequently all amounts referred to herein are United States dollar amounts.

The proprietary equity at December 31, 1970 was $859,000, represented by cash, $144,000, capital assets, $719,000, and accounts payable, $4,000.

The following is a summary of the revenue and expenditure for the year ended December 31, 1970, together with comparable figures for the preceding year:

	Year ended December 31	
	1970	1969
Revenue—		
Grants:		
Canada	$ 88,000	$ 88,000
United States of America	88,000	88,000
Other	8,000	9,000
	184,000	185,000
Expenditure—		
Administration, operation and maintenance:		
Salaries, wages and employee benefits	104,000	103,000
Repairs and maintenance	7,000	6,000
Publications	3,000	2,000
Professional services	3,000	2,000
Insurance	3,000	3,000
Light, heat and power	3,000	2,000
Travel	3,000	4,000
Guest house	2,000	3,000
Other	7,000	5,000
	135,000	*130,000*
Capital assets	90,000	39,000
	225,000	169,000
Excess of expenditure over revenue	$ 41,000	$ (16,000)

The increase in expenditure on capital assets in 1970 was due to the acquisition of additional property at a cost of $61,000.

361. *Royal Canadian Mint stocks.* Prior to April 1, 1969 the Royal Canadian Mint was a branch of the Department of Finance and section 20 of the Currency, Mint and Exchange Fund Act, *R.S. 1952, c.315,* required that "the Auditor General shall, at least once in each year, inspect the store of bullion and coin at the Mint". Our annual inspections under this Act consisted of a complete count of precious metals and coin.

On April 1, 1969 the Royal Canadian Mint was incorporated by the Royal Canadian Mint Act, *R.S., c. R-8,* and section 20 of the Currency, Mint and Exchange Fund Act was repealed. Accordingly, there is now no statutory require-

ment that "at least once in each year" the Auditor General inspect the store of bullion and coin which remains the property of the Department of Finance. While such inspections will be made from time to time as part of our regular audit of the Department of Finance, there will not necessarily be a complete annual inspection of the store of bullion and coin unless Parliament indicates its desire that this be done.

The Public Accounts Committee discussed this matter at its meeting of May 4, 1971 but as no reference was made to it in its Sixth Report, presented to the House on June 30, 1971, we must assume that the Committee is not concerned that there is no longer a statutory requirement that the Auditor General make an annual inspection of the store of bullion and coin at the Mint.

The following inventories were inspected as at December 31, 1970: coin, $2,317,-000 (face value), gold bullion, $8,049,000, and silver bullion, $1,692,000, held by the Royal Canadian Mint on behalf of the Department of Finance; and gold bullion, $362,000, belonging to others.

362. *Royal Canadian Mounted Police (Dependants) Pension Fund.* This Fund is operated under Part IV of the Royal Canadian Mounted Police Pension Continuation Act, *R.S., c. R-10,* which makes provision for members of the Force other than commissioned officers to provide pensions for their dependants. The Fund is credited with contributions and charged with all pensions, annuities and other benefits paid. Interest on the principal of the Fund is credited at the rate of 4% per annum.

The balance of the Fund at March 31, 1971 was $8,494,000 compared with $8,439,000 at March 31, 1970.

In compliance with section 55 of the Act, we have examined the accounts and financial statement of the Fund for the year ended March 31, 1971 and have reported thereon to the Solicitor General. The following is a summary of the Fund's transactions for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1971	1970
Receipts—		
Contributions by members	$ 233,000	$ 272,000
Interest	332,000	328,000
	565,000	600,000
Disbursements—		
Withdrawals of contributions	373,000	351,000
Pensions to dependants	137,000	92,000
	510,000	443,000
Excess of receipts over disbursements	$ 55,000	$ 157,000

The Act requires that an actuarial valuation of the Fund be made every five years. The last such valuation was made by the Department of Insurance as at March 31, 1969 and like the five preceding quinquennial valuations showed the Fund to be in a surplus position. Following each of these valuations since 1949, an increase in benefits has been implemented on recommendation of the actuary.

363. *Science Council of Canada.* The Council, consisting of a chairman, vice-chairman, twenty-three members and four associate members appointed by the Governor in Council, was established by the Science Council of Canada Act, *R.S., c. S-5,* to assess Canada's scientific and technological resources, requirements and potentialities and to make reports and recommendations thereon to the responsible Minister.

As required by section 18 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1971 and have reported thereon to the Council and to the Prime Minister.

The following is a summary of the expense of the Council for the past two years:

	Year ended March 31	
	1971	1970
Salaries and employee benefits	$ 574,000	$ 502,000
Professional and special services	378,000	416,000
Travel and removal	110,000	93,000
Accommodation	86,000	86,000
Office equipment, furniture, stationery and supplies	68,000	72,000
Publication of reports and studies	59,000	71,000
Telephone, telegrams and postage	23,000	20,000
Miscellaneous	11,000	10,000
Total expense	$ 1,309,000	$ 1,270,000
Total expense provided for by—		
Privy Council Vote 35 (Vote 20 in 1969-70)	$ 1,185,000	$ 1,149,000
Government departments which provided major services without charge	124,000	121,000
	$ 1,309,000	$ 1,270,000

364. *Standards Council of Canada.* This Corporation was established on October 7, 1970 by the Standards Council of Canada Act, *R.S. (1st Supp.), c.41,* and consists of six members employed in the public service of Canada, a member for each of the ten provinces to be nominated by the Lieutenant Governor in Council, and not more than forty-one other members, all to be appointed by the Governor in Council. The president was appointed effective November 16, 1970 but no other members had been appointed by March 31, 1971. The objects of the Council are to foster and promote voluntary standardization in fields relating to the construction, manufacture, production, quality, performance and safety of buildings, structures, manufactured

articles and products and other goods, and to further international co-operation in the field of standards.

The following is a summary of the operations of the Council from the date of inception on October 7, 1970 to March 31, 1971:

Income—		
Grant to assist in establishing a national standards association		$ 155,000
Expense—		
Salaries and wages	$ 18,000	
Accommodation	1,000	
Other	2,000	21,0C0
Excess of income over expense		$ 134,000

The grant of $155,000 to finance operations to March 31, 1971 was provided to the Council from Industry, Trade and Commerce Vote 5, Trade-Industrial Program. The unexpended balance of the grant at the year-end was held for the Corporation in a suspense account of the Department of Industry, Trade and Commerce. (See paragraph 88 of this Report.)

* * * *

The past year has seen a continuation of the difficulties which have beset the Audit Office for many years in the areas of staffing and pay. In the face of these, I would like to pay tribute to the loyalty and devotion of the members of the staff all of whom have continued to discharge their tasks in the best tradition of the Public Service of Canada.

I am confident that justice and fair play will prevail and that the difficulties in question will eventually be overcome.

A. M. HENDERSON

Auditor General of Canada

February 29, 1972

APPENDICES

APPENDIX 1

RECOMMENDATIONS AND OBSERVATIONS BY THE STANDING COMMITTEE ON PUBLIC ACCOUNTS NOT YET IMPLEMENTED OR DEALT WITH

Fourth Report 1963—presented to the House on December 19, 1963

1. SECOND CLASS MAIL. The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it.

In its Fourth Report 1966-67 the Committee stated that it felt that there was something wrong when no action had been taken with respect to, and apparently very little consideration given to, its recommendation on this matter. The Committee first drew the matter to the attention of the House in its Third Report 1958 and, while minor changes had been made, the annual loss had continued to increase and the Committee was of the opinion that sufficient consideration had not been given to the solution of this problem. It considered it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail, keeping in mind, however, the need of assistance to small independently-owned newspapers circulating in rural areas. *See paragraph 158 of this Report.*

Fourth Report 1964-65—presented to the House on July 28, 1964

2. GOVERNOR GENERAL'S SPECIAL WARRANTS. The Committee recommended that a study be made of Governor General's special warrants.

Sixth Report 1964-65—presented to the House on October 20, 1964

3. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.

In its Fifth Report 1968-69 the Committee expressed the opinion that, while the Federal Government should continue to assist the provinces in civil emergencies, outstanding accounts should be settled in view of the agreements to pay, or agreement must be reached on cost-sharing. It considered that this item should be included on the agenda of a future Federal-Provincial Conference for clarification and requested the Auditor General to keep it informed on further developments. *See paragraph 109 of this Report.*

4. ERRORS IN PUBLIC SERVICE SUPERANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS. The Committee expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General in 1959), which it regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed.

In its Seventh Report 1966-67 the Committee noted that immediate steps were being taken to include in the internal auditing procedures of the Superannuation Branch an examination of the employee's contributions in relation to his salary and the documents on file. It requested the Auditor General to continue to keep it fully informed. *See paragraph 188 of this Report.*

5. INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION. The Committee in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

After hearing further evidence, the Committee stated it continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

In its Seventh Report 1966-67 the Committee repeated its views on this matter and stated that it was glad to note the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General. *See also item 17 of this Appendix and paragraphs 55, 239 and 307 of this Report.*

6. INDIRECT COMPENSATION TO CHARTERED BANKS. The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

In its Seventh Report 1966-67 the Committee noted that notwithstanding this recommendation, Bill C-222, An Act respecting Banks and Banking, given first reading on July 7, 1966, includes a provision under subclause (2) of clause 93 designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest-bearing funds (currently an aggregate of $100 million) on deposit with them.

In the opinion of the Committee the proposed amendment does not meet its recommendation. *See paragraph 77 of this Report.*

Seventh Report 1964-65—presented to the House on December 7, 1964

7. SURPLUS ASSETS DISPOSAL. The Committee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots and at repair and overhaul contractors' establishments, is not available. In accordance with sound business practice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or

carrying values has rendered it difficult for the Committee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of $1,646 million annually, of which $421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.

The Committee made four recommendations of which the following has not yet been implemented:

> that every effort be made by the Executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department.

Eighth Report 1964-65—presented to the House on December 7, 1964

8. AWARDS UNDER THE PENSION ACT. The Committee made the following recommendations designed to clarify the Act:

(*a*) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";

(*b*) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;

(*c*) that the inconsistency apparent under section 38 of the Pension Act, where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;

(*d*) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;

(*e*) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

9 WAR VETERANS ALLOWANCES. The Committee made the following recommendations:

(*a*) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been

referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;

(*b*) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

In its Fifth Report 1968-69 the Committee expressed concern that its previous recommendation that cases of fraud with respect to war veterans allowances be "vigorously prosecuted" could be interpreted by some as indicating that the Committee's sole interest is in the recovery of the money. The Committee was aware that there may be mitigating circumstances and therefore recommended that the word "vigorously" be deleted.

10. AMENDMENTS TO THE CUSTOMS ACT AND THE EXCISE TAX ACT. The Committee made four recommendations of which the following has not yet been implemented (*see paragraph 149 of this Report*):

Determination of 'sale price' for sales tax purposes—

that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

11. AUDIT OF THE OFFICE OF THE AUDITOR GENERAL. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons. In its Third Report 1966-67 the Committee reiterated this recommendation.

Third Report 1966-67—presented to the House on June 28, 1966

12. SEPARATE ACT OF PARLIAMENT. The Committee is of the opinion that all of the characteristics, duties and functions of the Office of the Auditor General should be set out in a separate Act of Parliament governing this Office instead of being a part of the Financial Administration Act.

The Committee reiterated this opinion in its Fifth Report 1969-70.

13. STANDING COMMITTEE ON PUBLIC ACCOUNTS. The Committee has studied an arrangement in Australia whereby the Public Accounts Committee is appointed under an Act of Parliament instead of under terms of reference by the House of Commons as is the case in Canada.

The Committee believes that control of public expenditure of the size and complexity taking place in Canada today requires a Committee established by statute and recommended that legislation of this type be introduced in the House.

In its Thirteenth Report 1966-67 the Committee reiterated this recommendation and further recommended that the annual Public Accounts and the Report of the Auditor General be referred to the Public Accounts Committee at the time they are tabled in the House.

Fifth Report 1966-67—presented to the House on October 19, 1966

14. POSSIBLE LOSS OF REVENUE WHEN GOODS LOSE TAX-EXEMPT STATUS. The Committee noted the manner in which the Customs and Excise Division of the Department of National Revenue

places on owners and importers the onus for reporting any duty or tax which might become payable on non-tax paid equipment or goods. The Department maintains no control on such goods and consequently it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

The Committee urged the Department to strengthen its procedures wherever possible so as to minimize any possible loss of revenue to the Crown.

15. DRAWBACK PAID ON GOODS DESTROYED AFTER RELEASE FROM CUSTOMS. The Committee was concerned to note that it had been the practice of the Department of National Revenue (Customs and Excise Division) to recommend to the Governor in Council that duty drawbacks or remissions be made on goods "destroyed in Canada at the expense of the owner under Customs supervision" when section 22(6) of the Financial Administration Act directs that: "No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

The Committee is of the opinion that the Department should adopt a stricter attitude towards requests for refunds and remissions based on circumstances which lie outside of normal business practice.

16. TAX EXEMPTIONS FOR PARTICULAR GROUPS. Parliament from time to time grants exemptions from sales tax and/or other taxes to institutions such as hospitals or schools and groups of consumers such as loggers, farmers, etc. In the course of discussions with departmental officers and the Auditor General, there were indications that in some cases the benefits of such tax exemptions are enjoyed by those whom Parliament had not intended to assist. The Committee is aware that special exemptions increase the complexities of administering the tax law but, nevertheless, it feels that the laws must be administered so as to ensure that exemptions granted by Parliament are applied only in the way Parliament intended.

The Committee urged the Customs and Excise Division of the Department of National Revenue in its administration of special exemptions always to see to it that the benefits from these exemptions go to, and only to, those for whom Parliament intended them.

Seventh Report 1966-67—presented to the House on October 26, 1966

17. LOANS AND ADVANCES REPRESENTING GRANTS TO CROWN CORPORATIONS. The Committee again criticized the practice of treating amounts paid to a Crown corporation, which did not have means to repay them, as loans and advances rather than expenditures of the Crown. The Committee was disturbed to learn that not only had the financing in this manner of the National Capital Commission not been reviewed by the Department of Finance as requested by it (see item 5) but the practice had been continued and further extended by the Department of Finance in 1965 when the House was asked to approve loans aggregating $14,250,000 to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure.

The Committee again expressed the opinion that expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada. The Committee noted the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General and expects the latter's report thereon in due course. *See paragraphs 55 and 239 of this Report.*

The Committee discussed this matter with officials of the Canadian Broadcasting Corporation at its meeting on January 20, 1970, and in its First Report 1969-70 the Committee reiterated its view that it seems a questionable practice to treat amounts paid to a Crown

corporation, which does not have the means to repay them, as loans and advances rather than as expenditures of the Crown. The Committee understood from officials of the Corporation that their preference was that the amounts be treated as grants rather than loans and stated its intention of pursuing the matter further when the officials of the Department of Finance appeared before the Committee.

18. PRAIRIE FARM EMERGENCY FUND. The Committee believes it is important that the matters referred to by the Auditor General in paragraph 46 of his 1964 Report and paragraph 52 of his 1965 Report be rectified and recommended that appropriate legislation be introduced as soon as possible. It requested the Auditor General to keep the matter before the House and the Committee.

Eighth Report 1966-67—presented to the House on November 3, 1966

19. REPAIRS AND ALTERATIONS TO CANADIAN COAST GUARD SHIPS. The Auditor General, in paragraph 85 of his 1964 Report, drew attention to an instance where a ship repairer commenced operations under a contract involving a consideration of $43,346 but the work actually performed under the contract amounted to $130,851 before the ship was returned to service.

The Committee appreciates the problem faced by the Department of Transport when ships for which certain repairs have been contracted for require additional repairs, the need for which is not evident until the ship is opened up.

The Committee also appreciates the danger pointed out by the Auditor General that a shipyard could deliberately bid too low for the repairs specified in order to get the ship into its yard, and then recoup any loss sustained by including excessive profits in charges for the carrying out of the additional work that is found to be required after the ship has been opened up. The Committee feels that everything possible should be done to assure the Canadian taxpayer that the tender system in the case of ship repairs is working to ensure that costs of these repairs are not excessive, and it discussed with departmental officers various ways in which this continuing problem might be overcome.

The Committee recommended that, in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contract subject to cost audit by government auditors.

This activity is now the responsibility of the Department of Supply and Services.

20. COST OF ABANDONED DESIGN PLANS FOR FERRY VESSEL. The Committee discussed with officers of the Department of Transport and the Canadian National Railways the additional payment of $20,000 which had to be made to the architects who were preparing plans for a ferry vessel to operate between Newfoundland and the mainland.

In the opinion of the Committee this additional expenditure resulted because the Department and the C.N.R. had not come to an agreement as to whether the ferry vessel was to be a full icebreaker or simply an ice-strengthened ship, and emphatically stated that the Department should ensure in future that agreement is reached before architects are asked to proceed with the preparation of plans.

Although the Treasury Board had approved payment to the architects of the final amount of $130,000 for the preparation of these plans, the Board had not been advised that this represented an increase of $20,000 over the amount which the architects had originally agreed to accept for the assignment.

The Committee feels very strongly that the Treasury Board must be given all facts when it is being requested to approve of contracts, and it urged the Department to see that future submissions to the Board are complete in this respect.

The Committee, recognizing that the ferries operated by the Canadian National Railways on behalf of the Department of Transport are in effect rail links, recommended that consideration be given to the assuming by the Railways of responsibility for the procurement of ferry vessels as is done with respect to rolling stock requirements.

Tenth Report 1966-67—presented to the House on February 7, 1967

21. SALARIES AND WAGES PAID FOR WORK NOT PERFORMED. The Committee reviewed the practice of the Canadian Broadcasting Corporation in making payments to employees for scheduled hours during daily or weekly tours of duty in excess of actual hours of attendance, noting that such payments aggregate $450,000 per annum. The Committee considered that public funds should not be disbursed for work not performed and that managements of Crown corporations have a responsibility to ensure that the taxpayer's money is not used for non-productive work of this nature. The Committee recommended that such payments be eliminated by the management as and when the present union agreements come up for renewal.

The Committee again reviewed this practice when officials of the Canadian Broadcasting Corporation were before it on January 29, 1970, and in its First Report 1969-70 the Committee recommended that the Canadian Broadcasting Corporation negotiate with the unions involved in an endeavour to eliminate such payments. The Committee was also of the opinion that an effort should be made to have all CBC union contracts terminate at the same time.

22. PROPOSED REMOVAL ALLOWANCE. The Committee recommended that the Department of National Defence give consideration to recommending the establishment of a cash allowance for members of the Armed Forces being transferred equivalent to 90% of the estimated costs of moving their furniture and that it advise the Chairman of the Committee and the Auditor General of its decision.

In its Fifth Report 1968-69 the Committee noted that the Deputy Minister of National Defence had advised that disadvantages in such a scheme were such as to make it unwise to establish a cash allowance. However, the Committee remained of the opinion that serious consideration should be given to such a plan and requested the Deputy Minister of National Defence to review this subject and report.

Eleventh Report 1966-67—presented to the House on February 7, 1967

23. CENTRAL MORTGAGE AND HOUSING CORPORATION—REPORTS OF THE AUDITORS. The Committee is of the opinion that it is entitled to be furnished with copies of all reports made by the external auditors of any Crown corporation and requested that the Minister responsible for Central Mortgage and Housing Corporation instruct the Corporation to make these available to the Committee for the fiscal years ended December 31, 1963 and December 31, 1964 and to do so without further delay.

Twelfth Report 1966-67—presented to the House on February 9, 1967

24. RECONSTITUTION OF FINANCIAL STRUCTURE OF THE NATIONAL HARBOURS BOARD. The Committee is concerned that there appears to be little prospect of the National Harbours Board being in a position to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter was to be dealt with by the Department of Finance and the Board within the next twelve months. *See paragraphs 257 and 308 of this Report.*

Thirteenth Report 1966-67—presented to the House on March 1, 1967

25. PARLIAMENTARY CONTROL OF EXPENDITURE. The Committee expressed the opinion that there is a weakening of parliamentary control when Parliament is unable to take the time to examine in detail the amounts being requested as interim supply particularly when these exceed the normal one-twelfth for each month for which interim supply is requested. It considers it unfortunate that the parliamentary rules do not provide for immediate consideration of the Estimates after they are presented to the House so that the proposed spending can be approved and interim supply would not be required so extensively. It feels that the rules could and should be changed in this regard in order not only to strengthen parliamentary control of public funds but to give the Executive the clear mandate it deserves in the discharge of its heavy responsibilities.

The Committee submitted recommendations designed to strengthen parliamentary control of public expenditures in the future of which the following is still outstanding (*see paragraph 51 of this Report*):

> that there be no change in the Treasury Board's procedure whereby it is the agency which determines the Government's overall cash requirements in stated areas, e.g. salary increases. However, once this determination is completed and the individual departmental needs established, the Committee believes that the additional amount required by each department should be made the subject of a supplementary estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner.

Fifth Report 1968-69—presented to the House on June 26, 1969

26. EXCESSIVE ADVANCE PAYMENTS UNDER CONTRACTS. The Committee noted that an advance payment of $6.7 million, the full amount of a contract, had been made in March 1966 under a contract entered into on March 21, 1966. The Committee did not approve of the circumventing of the lapsing provision of section 35 of the Financial Administration Act in this way and recommended that the Treasury Board instruct departments not to contract themselves into obligations to make advance payments in order to avoid the lapsing of any portion of an appropriation. *See paragraph 120 of this Report.*

First Report 1969-70—presented to the House on February 12, 1970

27. EMERGENCY BROADCASTING. Although the costs incurred by the Canadian Broadcasting Corporation in providing the emergency broadcasting service had been reduced, the Committee expressed the opinion that the costs should be borne by the organization receiving the service and that the estimates of the Canadian Broadcasting Corporation should be reduced accordingly.

Second Report 1969-70—presented to the House on March 4, 1970

28. CO-ORDINATION OF RESEARCH AND DEVELOPMENT ASSISTANCE TO INDUSTRY. The Committee expressed the opinion that a central record of payments to various companies, by departments, should be kept by the Department of Industry, Trade and Commerce to prevent a possible duplication of effort and possible duplicate grants of funds.

Fourth Report 1969-70 — presented to the House on June 23, 1970

29. DELAY IN COLLECTING SALES TAX. The Committee noted that some licensed manufacturers prefer to collect sales tax on all their sales including sales of fully manufactured goods purchased by them for resale on which they had already been required to pay sales tax. In such cases the Department of National Revenue, by regulation, permits them to immediately deduct any sales tax paid by them on these purchases from amounts currently due to the Department with respect to their taxable sales. The effect of this regulation is that a manufacturer's inventory of fully manufactured goods purchased for resale is carried free of sales tax and the requirement of the law that sales tax be paid at the time of purchase of fully

manufactured goods for resale is completely negated. The Committee, noting that there was no loss of revenue and that the Department was of the opinion that the practice being followed was less cumbersome than the practice called for by section 30 of the Excise Tax Act, expressed the opinion that an amendment to section 30 of the Excise Tax Act should be sought. *See paragraph 150 of this Report.*

30. PROVISION OF NAVIGATIONAL AIDS WITHOUT CHARGE TO USERS. The Committee expressed the opinion that, in line with Government policy and the recommendation of the Royal Commission on Government Organization, the Department of Transport should apply user charges where possible in connection with the provision of navigational aids, and in those areas where user charges are not feasible, the Department of Transport should seek authority from the Executive to continue to supply the services without charge.

First Report 1970-71—presented to the House on November 26, 1970

31. INCREASING ACCOMMODATION RENTAL COSTS. The Committee noted the increasing cost of rentals by the Crown and recommended that accommodation and damage costs be made a charge to each department's appropriation rather than have the Department of Public Works pay a large part of this sum out of its own appropriation. The Committee expressed the view that this change might make departments willing to seek more modest accommodation in an effort to keep their estimates within reasonable bounds. *See paragraph 165 of this Report.*

Third Report 1970-71—presented to the House on January 28, 1971

32. CANADIAN BROADCASTING CORPORATION—HOTEL ACCOMMODATION RATES. In the course of a special study of travel expense claims of the Canadian Broadcasting Corporation the Committee noted that bench-mark hotel accommodation rates had been set for locations in Canada and recommended that similar bench-mark hotel accommodation rates be established for all centres wherever feasible.

33. CANADIAN BROADCASTING CORPORATION—PER DIEM TRAVEL ALLOWANCES. The Committee recommended that where possible, per diem allowances to cover meal costs including gratuities, should be established for all areas for which there are now no per diem rates.

Fifth Report 1970-71—presented to the House on March 10, 1971

34. FEDERAL-PROVINCIAL SHARED-COST PROGRAMS. In accordance with the suggestion of the Auditor General, the Committee recommended that a detailed summary of federal-provincial shared-cost programs be provided as an appendix to the Public Accounts to show the federal share of the cost of each program on an annual and cumulative basis. The Committee further recommended that the information on the federal share of each program be provided by province. *See paragraph 210 and Appendix 2 of this Report.*

35. CENTRAL MORTGAGE AND HOUSING CORPORATION—FINANCIAL STATEMENTS. The Committee noted that certain of the Corporation's transactions involving expenditure which is subsequently recovered by the Corporation from the Department of Finance are not fully reflected in the Corporation's financial statements. The Committee recommended that the transactions and their relation to the financial statements be fully explained in the Corporation's accounts.

Sixth Report 1970-71—presented to the House on June 30, 1971

36. LEASE RENEWALS. The Committee had become aware of instances where after a lease on public property had expired, the Crown had accepted continued rental payments beyond the expiry date and before the lease was renewed and then found that it had been unable to set a higher rental rate for such period without the lessee's consent because the original rental rates had been accepted unconditionally in the interim. Noting with approval that the Department of Transport now places in all leases with renewal options a clause stipulating that rental

payments accepted after the expiry of the original term would be conditional only, the Committee recommended that this practice be adopted by other departments and Crown agencies.

37. RECOVERABLE COSTS OF INDO-CHINA TRUCE COMMISSION. Noting that Canada had incurred costs totalling $2,772,000 in connection with its membership on the Indo-China Truce Commission, which it had been unsuccessful in recovering because of the failure of other participants in the Commission to meet their share of the operating costs of the Commission, the Committee recommended that the Department of External Affairs consider the advisability of taking diplomatic initiatives to resolve the situation. *See paragraph 244 of this Report.*

38. LIMITED COMPETITION FOR GOVERNMENT BUSINESS. The Committee recommended that as existing procurement contracts for security printing, such as postage stamps, revenue stamps, and passports expire, competition be broadened to include in competitive tendering qualified Canadian firms. *See paragraph 185 of this Report.*

APPENDIX 2

SUMMARY OF CANADA'S CONTRIBUTIONS TO FEDERAL-PROVINCIAL SHARED-COST PROGRAMS FOR THE FISCAL YEAR ENDED MARCH 31, 1971

(with comparative figures for the preceding fiscal year)

(in thousands of dollars)

For comments on these programs see paragraph 210 of this Report.

	Year ended March 31											
	1971	1970	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
Agriculture—												
Crop insurance	2,898			20	17			398	867	324	1,022	250
		3,491		*20*	*19*			*345*	*989*	*538*	*1,305*	*275*
Experimental crop insurance	920						920					
		1,188					*1,188*					
Grants to 4-H Clubs	168		4	4	9	3	19	68	15	19	17	10
		268	*8*	*7*	*18*	*9*	*21*	*135*	*19*	*21*	*21*	*9*
Programs under $100,000												
(5 in 1970-71)	190			2	3	2	9	95	14	17	47	1
(6 in 1969-70)		286		*2*	*2*	*1*	*19*	*137*	*25*	*22*	*70*	*8*
	4,176	*5,233*										
Energy, Mines and Resources—												
Construction of dams and other works to assist in the conservation and control of water resources	1,596							396	201	92		907
		932						*116*	*315*			*501*
Saskatchewan-Nelson Basin Board	1,291								1,291			
		1,199							*1,199*			
Aeromagnetic surveys	270						215					55
		343					*221*	*67*				*55*
Construction of roads to open up promising areas for resources development	—	346	*346*									
Atlantic Tidal Power Programming Board	—	270			*270*							
Programs under $100,000 (3 in each year)	15									14		1
		154	*65*							*8*		*81*
	3,172	*3,244*										
External Affairs—												
International Joint Commission	317							317				
		279						*279*				
Fisheries and Forestry—												
Industrial development	1,199		609	52	274	189	52	19				4
		1,146	*589*	*49*	*261*	*155*	*59*	*32*				*1*

Inventory of forest resources and land capability studies	693		693									
		626	*626*									
Newfoundland fisheries household re-settlement	168		168									
		1,400	*1,400*									
Combat of hemlock looper infestation	—	362	*362*									
Programs under $100,000												
(1 in 1970–71)	48							48				
(2 in 1969–70)		140				*55*		*85*				
	2,108	*3,674*										
Indian Affairs and Northern Development—												
Roads on and to Reserves	493					3			215	231		44
		200			*1*	*1*			*152*			*46*
Community development—on and off Re-serves	360							259			99	2
		427						*59*	*276*		*92*	
Fur and other resources conservation	237							125	52	60		
		204						*100*	*50*	*54*		
Social assistance and child welfare	174		113						61			
		831	*704*						*127*			
Vocational and technical training and orientation courses for Indians	—	195							*27*	*168*		
	1,264	*1,857*										
Industry, Trade and Commerce—												
Returns on vital statistics	81		3		3	3	23	28	4	5	3	9
		74	*2*		*3*	*2*	*22*	*25*	*4*	*5*	*3*	*8*
Manpower and Immigration—												
Capital assistance in the provision of training facilities for adult occupational training	169,498		8,574	2,188	9,384	10,985	76,523	7,758	19,054	13,765	1,404	19,863
		88,360		*1,109*	*8,590*	*9,687*	*38,314*	*16,179*	*1,910*	*7,106*	*2,267*	*3,198*
Vocational rehabilitation of disabled persons	5,259		44	17	265	146		2,734	712	626	510	205
		5,013	*45*	*17*	*204*	*161*		*2,257*	*1,095*	*678*	*314*	*242*
Agricultural manpower	151			2	5	2	35	56	13	2	34	2
		158		*2*	*21*		*28*	*54*	*12*	*1*	*40*	
Technical and vocational training	—	1,256			*39*		*1,181*	*36*				
Municipal winter works incentive	—	378		*7*	*1*		*28*	*342*				
Programs under $100,000												
(1 in 1970–71)	42							31				11
(2 in 1969–70)		62			*2*		*5*	*48*				*7*
	174,950	*95,227*										
National Defence—												
Emergency measures	2,982		82	21	112	33	843	1,077	144	127	234	309
		2,983	*73*	*19*	*131*	*31*	*857*	*1,019*	*142*	*126*	*253*	*332*

SUMMARY OF CANADA'S CONTRIBUTIONS TO FEDERAL-PROVINCIAL SHARED-COST PROGRAMS FOR THE FISCAL YEAR ENDED MARCH 31, 1971—Continued

(with comparative figures for the preceding fiscal year)

(in thousands of dollars)

For comments on these programs see paragraph 210 of this Report.

	Year ended March 31											
	1971	1970	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
National Health and Welfare—(Note 2)												
Hospital insurance and diagnostic services	732,065		24,002	4,829	37,498	28,077		368,786	43,894	43,982	82,521	95,476
		634,047	*21,046*	*4,049*	*32,276*	*25,063*		*320,852*	*40,391*	*42,536*	*67,287*	*80,547*
Medical care	400,497		12,257	809	17,754	3,426	56,126	174,452	23,194	22,470	38,074	51,935
		180,954	*9,481*		*13,709*			*64,965*	*17,790*	*17,689*	*21,204*	*36,116*
Canada Assistance Plan	390,089		21,967	3,766	16,743	15,242		176,164	23,187	20,621	39,192	68,207
		293,376	*20,289*	*3,293*	*15,246*	*11,795*		*131,839*	*19,260*	*17,233*	*31,335*	*43,086*
Health Resources Fund	37,500		101	4	376	170	8,743	19,465	761	1,730	4,860	1,290
		34,383	*71*	*281*	*3,202*	*803*	*6,036*	*19,440*	*15*	*2,467*	*1,301*	*767*
General health grants	17,350		611	250	934	657	1,741	6,601	1,425	1,355	1,569	2,207
		23,271	*843*	*325*	*1,234*	*909*	*1,857*	*9,570*	*1,735*	*1,637*	*2,112*	*3,049*
Disabled persons allowances	3,547		17	13	223	957	−4	214	283	40	678	1,126
		4,384	*22*	*17*	*382*	*1,006*	*−2*	*425*	*609*	*58*	*751*	*1,116*
Blind persons allowances	1,609		248	33	339	289	−1	81	130	39	165	286
		1,830	*262*	*38*	*370*	*314*	*−1*	*136*	*174*	*52*	*192*	*293*
Fitness and amateur sport	449		30	26	32	31	81	96	34	34	40	45
		1,126	*49*	*35*	*57*	*52*	*401*	*240*	*62*	*62*	*78*	*90*
Unemployment assistance	306							214			92	
		525						*419*			*106*	
National welfare grants	125		7	8	12	14		61		3	8	12
		208	*4*	*4*	*6*	*16*		*138*		*6*	*4*	*30*
Old age assistance	−159		−12	−1	−11	−8	−54	−23	−11	−10	−16	−13
		697	*−9*	*−1*	*191*	*222*	*−63*	*−26*	*151*	*−13*	*−24*	*269*
Hospital construction grants	—											
		43,758	*901*	*227*	*1,370*	*3,184*	*19,580*	*7,598*	*2,410*	*2,207*	*1,499*	*4,782*
Programs under $100,000 (2 in each year)	2					1						1
		4			*1*	*2*						*1*
	1,583,380	*1,218,563*										
Public Works—												
Trans-Canada Highway	39,573		9,607	88	1,456	4,153	13,600	5,674	947	1,263	916	1,869
		26,774	*6,730*	*70*	*6,707*	*1,977*	*3,105*	*4,500*	*654*	*314*	*1,129*	*1,588*
Construction of highway in counties of Matane and Gaspé North, Que.	1,729						1,729					
		1,104					*1,104*					

Reconstruction of Calumet-Bryson Bridge, Que.	—	107					*107*					
Programs under $100,000 (5 in each year)	120						61	15				44
		129			*27*			*55*				*47*
	41,422	*28,114*										
Regional Economic Expansion—												
Fund for Rural Economic Development (FRED)	25,857			6,115		3,505	12,145		4,092			
		17,626		*4,014*		*2,886*	*7,306*		*3,420*			
Agricultural and Rural Development Act (ARDA)	18,088		365		1,240	707	1,793	4,889	1,295	2,125	3,855	1,819
		24,520	*756*	*210*	*1,712*	*723*	*4,332*	*8,927*	*1,072*	*2,613*	*2,396*	*1,779*
Newfoundland fisheries resettlement	808	—	808									
Shellmouth, Man., dam and portage diversion	509								509			
		4,089							*4,089*			
Federal-Provincial Research and Development	253	—				253						
Surveying Atlantic Provinces—Accommodation	131	—		131								
Production of Export Trade Shows	40	—			20	20						
	45,686	*46,235*										
Infrastructure Grants, Special areas—												
Educational facilities	9,401	—	4,422		2,475	1,715				418	371	
Water and sewers	5,868	—	1,400		1,681	1,152	1,510			45	80	
Roads and highways	2,146	—	61		1,768	317						
Industrial parks	1,284	—	645				576			63		
Tourism development	949	—					949					
Housing	736	—					736					
Research and Scientific Centre	238	—					238					
Manpower Corps	238	—							81		157	
Other facilities	9	—								9		
	20,869	—										

SUMMARY OF CANADA'S CONTRIBUTIONS TO FEDERAL-PROVINCIAL SHARED-COST PROGRAMS FOR THE FISCAL YEAR ENDED MARCH 31, 1971—Concluded

(with comparative figures for the preceding fiscal year)

(in thousands of dollars)

For comments on these programs see paragraph 210 of this Report.

	Year ended March 31											
	1971	1970	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
Commitments of the Atlantic Development Board—												
Research facilities	239					239						
		2,303				*2,303*						
Industrial park facilities	161	—			161							
Strait of Canso development	17				17							
		213			*213*							
Trunk highway program	7		6			1						
		6,647	*2,223*	*424*	*2,000*	*2,000*						
Construction of highway, Long Harbour to Argentia-Placentia area, Nfld.	—	173	*173*									
Special housing assistance to residents of Bell Island, Nfld.	—	140	*140*									
Mobility assistance to residents of Bell Island, Nfld.	—	135	*135*									
Bogland clearing	—	6	*6*									
	424	*9,617*										
Secretary of State—												
Post-secondary education (Note 3)	388,269		5,905	1,341	13,850	7,590	114,115	143,409	17,454	15,072	54,069	15,464
		301,433	*4,430*	*962*	*12,477*	*5,665*	*91,267*	*105,014*	*12,918*	*15,675*	*40,040*	*12,985*
Bilingualism development	50,000		123	101	734	3,695	29,987	12,164	850	597	865	884
		89			*40*	*28*		*21*				
Citizenship and language instruction for immigrants	864					1	32	791	6	5		29
		371			*3*			*329*	*11*		*5*	*23*
Indian Friendship Centres	105								48	23	34	
		131							*60*	*30*	*41*	
Centennial Commission	47					47						
		1,435	*107*		*24*		*366*	*896*		*42*		
	439,285	*303,459*										

Transport—												
Losses on the operation of public housing projects	9,411		147		427	511	901	6,688	81	338	4	314
		5,451	*337*		*476*	*298*	*569*	*3,175*	*82*	*151*	*15*	*348*
National Harbours Board—Construction of retaining wall along banks of St. Charles River, Que.	2,812						2,812					
		964					*964*					
Moosonee Airport development	295	—						295				
Programs under $100,000												
(4 in 1970–71)	28				11			14			3	
(1 in 1969–70)		5						*5*				
	12,546	*6,420*										
Treasury Board—												
Technical information services	373				63	51		67		63	65	64
		373			*63*	*51*		*67*		*63*	*65*	*64*
	2,333,035		93,007	19,819	107,875	84,179	326,455	933,526	148,903	125,537	230,972	262,732
		1,725,352	*72,216*	*15,180*	*101,348*	*69,399*	*178,871*	*699,900*	*111,245*	*111,549*	*173,901*	*191,743*

NOTES:

(1) The expenditures shown are direct costs only and do not include federal administrative expenses.

(2) Not included in the expenditures are tax abatements and tax equalization payments of $547,794,000 in 1970–71 and $470,185,000 in 1969–70 to the Province of Quebec, following its election in 1965 under the Established Programs (Interim Arrangements) Act, *R.S.*, *c. E-8*, to wholly administer and finance certain standing programs. These programs are hospital insurance and diagnostic services, Canada Assistance Plan, disabled persons allowances, old age assistance, blind persons allowances, unemployment assistance and certain aspects of general health grants.

(3) In addition to the expenditure shown under Secretary of State for post-secondary education, there were tax abatements and tax equalization payments to all provinces relating to post-secondary education, totalling $389,754,000 in 1970–71 and $336,517,000 in 1969–70.

EXHIBITS

(as published in the Public Accounts)

THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR
(with comparative figures for

EXPENDITURE

	Fiscal year ended March 31, 1971	Fiscal year ended March 31, 1970
Agriculture	$ 277,005,746	$ 382,256,318
Communications	13,896,987	13,428,715
Post Office	368,595,978	340,515,599
Consumer and Corporate Affairs	20,219,433	16,697,483
Energy, Mines and Resources	123,061,075	120,853,553
Atomic Energy	76,685,608	74,885,613
External Affairs	281,585,333	242,225,671
Finance—		
Public debt charges	1,822,843,841	1,716,928,645
Fiscal, tax-sharing, subsidies and other payments to provinces	1,228,946,153	932,420,487
Other expenditure	83,699,588	191,774,204
	3,135,489,582	*2,841,123,336*
Auditor General	3,105,045	2,865,748
Insurance	949,778	945,102
Fisheries and Forestry	79,831,473	76,866,896
Governor General and Lieutenant-Governors	1,152,820	1,124,040
Indian Affairs and Northern Development	355,306,017	305,912,350
Industry, Trade and Commerce	250,568,846	296,130,133
Justice	22,734,406	19,661,561
Labour	13,477,846	12,071,778
Unemployment Insurance Commission	178,051,441	143,447,255
Manpower and Immigration	570,750,039	439,510,592
National Defence—		
Defence services	1,517,218,111	1,541,765,353
Defence research	45,862,787	44,121,189
Other expenditure	254,795,313	202,541,294
	1,817,876,211	*1,788,427,836*
National Health and Welfare—		
Family allowances	557,877,824	560,049,929
Other expenditure	1,781,725,151	1,396,673,609
	2,339,602,975	*1,956,723,538*
National Revenue	158,833,608	144,583,159
Parliament	27,235,651	22,988,752
Privy Council	13,054,951	11,597,090
Central Mortgage and Housing Corporation	46,987,307	43,590,285
Public Works	330,657,604	286,772,698
Regional Economic Expansion	326,230,514	236,060,698
Secretary of State	541,939,869	387,156,247
Canadian Broadcasting Corporation	166,000,000	166,000,000
Solicitor General	76,484,241	70,820,435
Royal Canadian Mounted Police	146,304,796	113,263,782
Supply and Services	74,647,225	82,291,896
Transport	470,426,969	467,342,611
Treasury Board	340,515,626	269,443,206
National Research Council	122,917,256	121,651,855
Veterans Affairs—		
Pensions	216,357,437	222,315,557
Other expenditure	193,603,843	200,043,594
	409,961,280	*422,359,151*
Total expenditure	13,182,143,536	11,921,594,982
Budgetary surplus or deficit (—)	—379,092,128	392,[illegible]55,874
	12,803,051,408	12,314,150,856

S. S. REISMAN,
Deputy Minister of Finance.

H. R. BALLS,
Deputy Receiver General for Canada.

(This Statement is to be found on pages 9.2 and 9.3 of the Public Accounts, Volume I)

EXHIBIT 1

OF CANADA

THE FISCAL YEAR ENDED MARCH 31, 1971
the preceding fiscal year)

REVENUE

	Fiscal year ended March 31, 1971	Fiscal year ended March 31, 1970
Tax revenue—		
Income tax—		
Personal[1]	$ 4,696,[illegible]81,982	$ 4,085,120,802
Corporation [1]	2,218,528,208	2,611,961,028
On dividends, interest, etc., going abroad	258,151,272	248,511,376
Social development tax	566,250,000	476,500,000
Excise taxes—		
Sales[1]	1,707,500,713	1,716,899,405
Other	403,223,374	378,423,511
Customs import duties	814,544,225	818,282,786
Excise duties	561,037,941	518,844,479
Estate tax	119,835,070	100,630,908
Miscellaneous	314,709	250,770
	11,345,867,494	*10,955,425,065*
Non-tax revenue—		
Return on investments	1,000,1[illegible]3,367	860,031,744
Post Office—net postal revenue	337,570,317	354,752,869
Refunds of previous years' expenditure	23,045,061	29,447,570
Services and service fees	17,065,324	18,103,773
Proceeds from sales	14,015,809	16,366,327
Privileges, licences and permits	26,294,375	24,509,769
Bullion and coinage	19,946,203	19,939,895
Premium, discount and exchange	812,595	11,032,636
Miscellaneous	18,280,863	24,541,208
	1,457,183,914	*1,358,725,791*
Total revenue	12,803,051,408	12,314,150,856

(1) Excluding tax credited to:

	1970–71	1969–70
Old age security fund—		
Personal income tax	$1,132,500,000	$1,026,500,000
Corporation income tax	207,900,000	227,100,000
Sales tax	573,849,158	577,441,269

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Receiver General for Canada and that, in my opinion, it exhibits a correct view of the expenditure and revenue of Canada for the year ended March 31, 1971.

A. M. HENDERSON,
Auditor General.

THE GOVERNMENT

STATEMENT OF ASSETS AND
(with comparative figures

ASSETS

	March 31, 1971	March 31, 1970	Net increase or decrease (−) during 1970–71
1. Current assets—			
(a) Cash, schedule A, page 7	$ 1,578,048,347	$ 1,030,431,060	$ 547,617,287
(b) Securities held for the securities investment account at amortized cost	56,931,602	97,369,756	−40,438,154
(c) Other current assets, schedule B, page 7	52,698,352	43,617,918	9,080,434
	1,687,678,301	*1,171,418,734*	*516,259,567*
2. Departmental working capital advances, schedule C, page 7	215,551,369	200,962,264	14,589,105
3. Foreign exchange reserve accounts—			
(a) Exchange Fund Account—(value of investments from advances on basis of closing market rates at March 31, 1971 $4,338,159,534 and at official parity rates at March 31, 1970 $3,250,682,155)	4,578,423,991	3,220,399,866	1,358,024,125
(b) Canada's subscription to capital of the International Monetary Fund	1,148,880,764	800,000,000	348,880,764
	5,727,304,755	*4,020,399,866*	*1,706,904,889*
4. Social security accounts— Canada Pension Plan investment fund, schedule D, page 9	3,701,275,000	2,832,734,000	868,541,000
5. Investments held for retirement of unmatured debt	6,875,017	13,817,571	−6,942,554
6. Advances, loans and investments—Domestic, schedule E, page 9—			
(a) Loans to, and investments in, crown corporations	10,606,167,948	9,485,078,524	1,121,089,424
Recovery likely to require parliamentary appropriations	149,085,810	149,451,624	−365,814
(b) Loans to provincial governments	359,949,199	319,649,195	40,300,004
(c) Municipal Development and Loan Board advances	263,554,972	272,776,567	−9,221,595
(d) Veterans Land Act fund (less reserve for conditional benefits)	492,339,217	472,078,796	20,260,421
(e) Miscellaneous	320,265,483	222,041,299	98,224,184
	12,191,362,629	*10,921,076,005*	*1,270,286,624*
7. Advances, loans and investments—External, schedule F, page 14—			
(a) Loans to national governments	1,406,097,348	1,327,927,779	78,169,569
(b) Subscriptions to capital of and working capital advances and loans to, international organizations	275,035,884	247,038,157	27,997,727
(c) Investments in United States dollar securities issued by other than the Government of Canada—Columbia River Treaty	25,754,161	58,041,661	−32,287,500
	1,706,887,393	*1,633,007,597*	*73,879,796*
8. Securities held in trust, schedule G, page 15	124,490,532	114,363,168	10,127,364
9. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account	227,240,000	254,805,600	−27,565,600
Public service superannuation account	311,196,400	283,708,400	27,488,000
Royal Canadian Mounted Police superannuation account	30,005,400	29,282,800	722,600
(b) Unamortized loan flotation costs, section 11, page 10	175,143,932	182,798,793	−7,654,861
	743,585,732	*750,595,593*	*−7,009,861*
10. Capital assets	1	1	
11. Inactive loans and investments, schedule H, page 16	94,824,381	94,824,381	
Total recorded assets	26,199,835,110	21,753,199,180	4,446,635,930
12. *Less:* Reserve for losses on realization of assets	−546,384,065	−546,384,065	
Net recorded assets	25,653,451,045	21,206,815,115	4,446,635,930
13. Net debt, represented by excess of liabilities over net recorded assets, schedule I, page 16	17,322,374,244	16,943,282,116	379,092,128
	42,975,825,289	38,150,097,231	4,825,728,058

The notes appearing on page 4 are an integral part of this Statement of Assets and Liabilities.

S. S. REISMAN,
Deputy Minister of Finance.

H. R. BALLS,
Deputy Receiver General for Canada.

(This Statement and the schedules and pages referred to therein are to be found in the Public Accounts, Volume I, Section 10, except where otherwise indicated)

EXHIBIT 2

OF CANADA

LIABILITIES AS AT MARCH 31, 1971
as at March 31, 1970)

LIABILITIES

	March 31, 1971	March 31, 1970	Net increase or decrease (−) during 1970–71
14. Current and demand liabilities, schedule J, page 17—			
(a) Outstanding cheques	$ 630,333,381	$ 515,879,534	$ 114,453,847
(b) Accounts payable (that portion paid in April of the next following year)	582,300,567	602,615,259	−20,314,692
(c) Non-interest-bearing notes payable to international organizations	7,048,532	15,065,400	−8,016,868
(d) Matured debt outstanding	32,729,140	21,224,215	11,504,925
(e) Interest due and outstanding	325,577,376	161,642,454	163,934,922
(f) Interest accrued	495,600,944	434,022,517	61,578,427
(g) Other current liabilities	61,601,666	58,361,351	3,240,315
	2,135,191,606	*1,808,810,730*	*326,380,876*
15. Foreign exchange reserve accounts—			
(a) Non-interest-bearing notes payable to the International Monetary Fund	635,000,000	364,000,000	271,000,000
(b) Allocation of Special Drawing Rights in the International Monetary Fund	253,423,990	134,399,865	119,024,125
	888,423,990	*498,399,865*	*390,024,125*
16. Deposit and trust accounts, schedule K, page 19	439,183,779	491,881,909	−52,698,130
17. Annuity, insurance and pension accounts, schedule L, page 23—			
(a) Social security accounts—			
Canada Pension Plan	3,843,577,393	2,932,257,696	911,319,697
Old Age Security Fund	728,422,342	721,397,687	7,024,655
Unemployment Insurance Fund	25,055,620	11,775,436	13,280,184
(b) Superannuation accounts	7,760,361,754	7,071,581,403	688,780,351
(c) Other	1,445,263,043	1,447,492,221	−2,229,178
	13,802,680,152	*12,184,504,443*	*1,618,175,709*
18. Undisbursed balances of appropriations to special accounts, schedule M, page 23	266,598,006	273,398,077	−6,800,071
19. Refundable corporation tax	3,064,986	38,148,275	−35,083,289
20. Provision for compound interest on Canada Savings Bonds, schedule N, page 24	18,582,473	20,301,180	−1,718,707
21. Deferred credits, schedule O, page 24	216,813,957	192,928,440	23,885,517
22. Suspense accounts, schedule P, page 24	4,129,739	4,584,083	−454,344
23. Unmatured debt, schedule Q, page 26			
(a) Bonds	21,466,156,601	19,742,140,229	1,724,016,372
(b) Treasury bills	3,735,000,000	2,895,000,000	840,000,000
	25,201,156,601	*22,637,140,229*	*2,564,016,372*
Total liabilities	42,975,825,289	38,150,097,231	4,825,728,058

NOTE:
The indirect or contingent liabilities of the Government of Canada, consisting of railway securities guaranteed as to principal and interest $1,004,536,725; other guarantees of $9,532,472,561; together with certain indeterminate guarantees, are listed on page 82.

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Receiver General for Canada and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1971.

A. M. HENDERSON,
Auditor General.

EXHIBIT 3

SUMMARY OF APPROPRIATIONS, EXPENDITURES AND UNEXPENDED BALANCES BY DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1971

Section (Volume II)	Department	Appropriations	Expenditures	Unexpended Balances	
				Lapsed	Carried forward[1]
		$	$	$	$
1	Agriculture	297,846,515	277,005,746	20,840,769	
2	Communications	412,790,168	382,492,965	30,297,203	
3	Consumer and Corporate Affairs	21,485,217	20,219,433	1,265,784	
4	Energy, Mines and Resources	207,488,164	199,746,683	7,741,481	
5	External Affairs	[2]293,637,540	281,585,333	6,496,037	5,556,170
6	Finance	3,143,042,197	3,139,544,405	697,792	2,800,000
7	Fisheries and Forestry	82,790,800	79,831,473	2,959,327	
8	Governor General and Lieutenant-Governors	1,224,633	1,152,820	71,813	
9	Indian Affairs and Northern Development	[3]359,209,177	355,306,017	3,903,160	
10	Industry, Trade and Commerce	[4]266,073,101	250,568,846	15,504,255	
11	Justice	23,241,889	22,734,406	507,483	
12	Labour	225,959,408	191,529,287	6,010,206	28,419,915
13	Manpower and Immigration	[5]574,803,121	570,750,039	4,037,678	15,404
14	National Defence	1,829,754,493	1,817,876,211	11,878,282	
15	National Health and Welfare	2,348,999,694	2,339,602,975	9,396,719	
16	National Revenue	165,654,367	158,833,608	6,820,759	
17	Parliament	27,617,449	27,235,651	381,798	
18	Privy Council	70,394,268	60,042,258	10,352,010	
19	Public Works	350,217,135	330,657,604	19,559,531	
20	Regional Economic Expansion	336,758,500	326,230,514	10,527,986	
21	Secretary of State	[6]719,961,967	707,939,869	1,960,051	10,062,047
22	Solicitor General	232,178,834	222,789,037	9,389,797	
23	Supply and Services	77,834,713	74,647,225	3,187,488	
24	Transport	488,994,659	470,426,969	18,567,690	
25	Treasury Board	467,654,291	463,432,882	4,221,409	
26	Veterans Affairs	424,392,105	409,961,280	14,430,825	
		13,450,004,405	13,182,143,536	221,007,333	46,853,536

(1) Available for expenditure in subsequent fiscal years: Department of External Affairs vote 20 (formerly vote 35, 1969–70) $5,556,170; Department of Finance vote 11a, 1970–71 $2,800,000; Department of Labour vote 7b, 1970–71 $28,419,915; Department of Manpower and Immigration vote 10, 1970–71 $15,404; Department of Secretary of State vote 2b, 1968–69 $217,153 and vote 22a, 1970–71 $9,844,894.

(2) Includes $10,197,129 carried forward from vote 35, Department of External Affairs 1969–70 appropriations.

(3) Includes $196,122 carried forward from vote 30b, Department of Indian Affairs and Northern Development 1969–70 appropriations.

(4) Includes $8,037,766 carried forward from vote 36b, Department of Industry, Trade and Commerce 1969–70 appropriations.

(5) Includes $15,313,666 carried forward from vote 10, Department of Manpower and Immigration 1969–70 appropriations.

(6) Includes $423,724 carried forward from vote 2b, Department of Secretary of State 1969–70 appropriations.

S. S. REISMAN,
Deputy Minister of Finance

H. R. BALLS,
Deputy Receiver General for Canada.

Auditor General's Certificate

The accounts relating to the expenditures as set forth in the above statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1971.

A. M. HENDERSON,
Auditor General.

(This Summary is to be found on page 9.6 of the Public Accounts, Volume I, and the sections referred to therein are those in the Public Accounts, Volume II)

EXHIBIT 4

SUMMARY OF REVENUE BY MAIN CLASSIFICATION AND DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1971

Section (Volume II)	Department	Tax revenue	Return on investments	Bullion and coinage	Postal revenue	Privileges, licences and permits	Proceeds from sales	Services and service fees	Refunds of previous years' expenditures	Premium, discount and exchange	Mis-cellaneous	Total
		$	$	$	$	$	$	$	$	$	$	$
1	Agriculture		72,636,560			255,566	1,913,308	8,319,265	152,695		74,517	83,351,911
2	Communications		3,162,594		337,570,317				75,490		17,954	340,826,355
3	Consumer and Corporate Affairs					7,735,427	55	3,074,036	8,114		484,267	11,301,899
4	Energy, Mines and Resources		2,385,700			656,106	205,916	9,351	595,852		53,109	3,906,034
5	External Affairs		1,207,306			109,504	2,605	434,757	196,812		256,687	2,207,671
6	Finance	314,709	504,211,691	19,946,203			1,063	606,415	346,737	812,595	690,620	526,930,033
7	Fisheries and Forestry		497,461			1,423,633	146,913	6,054	26,547		81,971	2,182,579
9	Indian Affairs and Northern Development		5,373,486			7,476,616	757,977	162,301	934,742		1,173,084	15,878,206
10	Industry, Trade and Commerce		16,376,753			59,716		71,408	2,297,825		262,096	19,067,798
11	Justice							53,985	15,850		171,974	241,809
12	Labour		845				2,242	8,541	49,551		1,224,364	1,285,543
13	Manpower and Immigration		101,607			18,474	2,788	16,865	2,209,839		305,065	2,654,638
14	National Defence		1,053,489			9,227			2,945,016		125,924	4,133,656
15	National Health and Welfare		68			14,782		748	684,895		742,904	1,443,397
16	National Revenue	11,345,552,785	84,267			82,645	486,383	486,984	57,849		5,366,947	11,352,117,860
17	Parliament					2,975		9,283	8,488		53,578	74,324
18	Privy Council		265,959,203				2,697,454		2,589,450		1,784,363	273,030,470
19	Public Works					5,955,617	2,675	1,699,273	1,417,186		460,195	9,534,946
20	Regional Economic Expansion		13,297,144			1,350,744	207,553	1,449,713	2,585,807		360,937	19,251,898
21	Secretary of State		7,459,246			673,571	25,845	45,981	96,246		45,720	8,346,609
22	Solicitor General		387,199			69,598	269,884	10,844	361,617		194,660	1,293,802
23	Supply and Services		4,366,585			32,651	7,125,457	599,520	52,292		191,370	12,367,875
24	Transport		79,622,844			367,523	167,691		1,239,816		2,013,986	83,411,860
25	Treasury Board		700						202,786		1,858,458	2,061,944
26	Veterans Affairs		21,968,619						3,893,559		286,113	26,148,291
		11,345,867,494	1,000,153,367	19,946,203	337,570,317	26,294,375	14,015,809	17,065,324	23,045,061	812,595	18,280,863	12,803,051,408

S. S. REISMAN,
Deputy Minister of Finance.

H. R. BALLS,
Deputy Receiver General for Canada.

Auditor General's Certificate

The accounts relating to the revenue set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1971.

A. M. HENDERSON,
Auditor General.

(This Summary is to be found on pages 9.10 and 9.11 of the Public Accounts, Volume I, and the sections referred to therein are those in the Public Accounts, Volume II)

EXHIBIT 5

BUDGETARY EXPENDITURE BY STANDARD OBJECTS FOR FISCAL YEAR ENDED MARCH 31
(in millions of dollars)

	Fiscal year ended March 31		
	1971	1970	Increase or decrease (—)
	Expenditure	Expenditure	Expenditure
Salaries and wages................(1)	2,644	2,467	177
Other personnel costs................(1)	580	475	105
Transportation and communications................(2)	312	293	19
Information................(3)	34	35	—1
Professional and special services................(4)	443	384	59
Rentals................(5)	94	83	11
Purchased repair and upkeep................(6)	189	145	44
Utilities, materials, supplies and livestock................(7)	357	334	23
Construction and acquisition of land, buildings and equipment................(8)	295	337	—42
Construction and acquisition of machinery, equipment and furnishings................(9)	265	327	—62
Grants, contributions and other transfer payments................(10)	6,008	5,078	930
Public debt charges................(11)	1,825	1,717	108
All other expenditures................(12)	541	601	—60
Total standard objects................(1-12)	13,587	12,276	1,311
Less: receipts and revenues credited to vote................(13)	—405	—355	—50
Total net expenditures................	13,182	11,921	1,261

(This Table is to be found on page 4.5 of the Public Accounts, Volume I)

CANADA

REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF COMMONS

for the

FISCAL YEAR ENDED MARCH 31

1971 / 1972

CANADA

REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF COMMONS

for the

FISCAL YEAR ENDED MARCH 31

1972

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(as published in the Public Accounts)

THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act, *R.S., c. F-10.*

2. Subsection (2) of section 61 of the Act states that the Report of the Auditor General shall be laid before the House of Commons by the Minister of Finance on or before December 31 or, if Parliament is then not in session, within 15 days after the commencement of the next ensuing session.

I have been unable to complete my Report on the results of my examinations for the year ended March 31, 1972, within this timetable due to circumstances beyond my control.

3. In accordance with the requirement of subsection (1) of section 61 of the Act, I now report to the House of Commons on the results of my examinations of the expenditure and revenue transactions in the year ended March 31, 1972. This subsection reads:

> The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that
>
> (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
>
> (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
>
> (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
>
> (d) an expenditure was not authorized or was not properly vouched or certified,
>
> (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
>
> (f) a special warrant authorized the payment of any money,
>
> and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

4. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1972, and the Statement of Assets and Liabilities as at that date, prepared by the Receiver General for inclusion in the Public Accounts, have been examined and certified by me as required by section 60 of the Financial Administration Act, subject to my comments in this Report. Copies of these financial statements are appended as Exhibits 1 and 2. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments and the Summary of Revenue by Main

Classification and Departments, both as included in the 1972 Public Accounts, have also been examined and certified and copies are appended as Exhibits 3 and 4.

Standing Committee on Public Accounts

5. My 1970 Report was submitted to the House of Commons on June 4, 1971, during the Third Session of the Twenty-eighth Parliament and the Committee commenced its examination thereof on October 7, 1971. From that date until December 14, 1971, the Committee held 17 meetings during which it gave consideration to 44 of the comments in this Report relating to transactions in seven government departments. The Committee reported to the House on these paragraphs on June 8, 1972, in its Second Report 1972 during the Fourth Session which commenced on February 17, 1972. The Committee made two other reports before Parliament was dissolved on September 1, 1972:

First Report 1972, dated March 22, 1972—concerning draft proposals for an Auditor General's Act.

Third Report 1972, dated June 30, 1972—concerning failure of the Canadian Broadcasting Corporation to deduct and remit employees' taxes and to pay other contributions to the United States Government.

My 1971 Report was submitted to the House on May 24, 1972. Although referred by the House to the Committee on June 7, 1972, the latter was unable to commence its examination of it before Parliament was dissolved on September 1, 1972. It is assumed the remaining paragraphs in my 1970 Report as well as my entire 1971 Report will be examined by the Committee when it meets during the First Session of the Twenty-ninth Parliament which opened on January 4, 1973.

Recommendations and Observations by the Standing Committee on Public Accounts not yet implemented or dealt with

6. My Report to the House last year included a listing of 38 recommendations and observations by the Public Accounts Committee which were awaiting implementation by the Executive or further consideration by the Committee.

The Executive has implemented one of these recommendations:

Fifth Report 1970-71

Central Mortgage and Housing Corporation—financial statements

Thus of the 38 recommendations which had not been implemented or otherwise dealt with at March 31, 1971, 37 remain. Three additional recommendations which are capable of specific implementation but which have not yet been implemented have been made by the Committee (see Appendix 1, items 38 to 40).

Scope of Audit

7. Examinations of the departmental accounts for the year ended March 31, 1972, were made in conformity with section 58 of the Financial Administration Act which reads:

> The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion
>
> (a) the accounts have been faithfully and properly kept;
>
> (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue;
>
> (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized; and
>
> (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

The scope of the work of the Audit Office, embracing both the legislative audit or audit for authority and the financial audit, has continued to be restricted during the past year by reason of the chronic staff shortages from which the Office has suffered over many years due to the continued failure of the Public Service Commission to recruit sufficient staff of the calibre required. Newly recruited staff, before being assigned to the audit work, have required more extensive training than was formerly the case. Particulars of the staff difficulties with which the Office continues to be faced are given in paragraph 8.

Notwithstanding these handicaps, the Audit Office has sought to carry out its work to the maximum extent possible in conformity with generally accepted auditing standards, with verification limited to such tests of the accounting records and other supporting evidence as were considered necessary in the circumstances. Examinations during the year covered all departments, Crown corporations and other agencies of the Government of Canada, except those corporations and other instrumentalities whose accounts are subject to examination by other auditors. Members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations and other agencies. In addition, they were provided with all supplementary information and explanations required. I should like to express my appreciation for the co-operation thus extended by departmental officers and by the administrative and accounting officers of Crown corporations and other agencies.

The work undertaken by the Audit Office has never included any operational or management type auditing such as is widely practised today by auditors in many other fields and by state auditors in many other countries. Auditing of this type has never been undertaken in Canada by this Office because such work could have caused the Auditor General to trespass into policy areas which under our Canadian constitution are a ministerial responsibility. However, a strong case is being made

for the Office to undertake such auditing. I have always held the view that extension of its work into this area should not be undertaken by the Auditor General of Canada in the absence of specific statutory authority.

The Office and Its New Legislation Ahead

8. In my Report last year I referred to the downgrading of the 28 senior positions in the Office, namely those of Director, Assistant Director and Regional Supervisor, all of which were downgraded by the Treasury Board in relation to similar positions in other government departments. I have stated before and do so again that this action by the Treasury Board Secretariat was unfair and discriminated against the Auditor General. If it is allowed to stand, it will mean that his Office is prevented from employing auditors in the highest classification of the Public Service of Canada. It will also mean that in order to reach the highest classification in their profession, his most experienced auditors must leave the Office of the Auditor General.

During the past year certain of the senior positions in question were again submitted to the Classification Division of the Treasury Board in the hope that the situation might still be corrected. The Office was, however, again advised by the Treasury Board that it could not concur in our recommendation and so the downgrading stands.

The staff situation has not improved materially during the year. In submitting our estimates to the Treasury Board for the fiscal year 1971-72, I requested a sum of $3,739,000 to provide salaries for a staff strength of 293 employees, the number estimated to be required to carry out an effective external audit program during the year. As they have done in the past, the Treasury Board approved my submission without change and in due course Parliament appropriated the necessary funds. At the close of the year, $283,000 lapsed due to the fact that 25 of the positions were not filled by the Public Service Commission.

At March 31, 1972, the actual working strength was 268 and at December 31, 1972, it was 282 out of an approved establishment figure for 1972-73 of 302. Thus the Office was short 25 a year ago and remains short 20 today.

The responsibility for recruitment has, of course, continued to remain with the Public Service Commission under section 56(4) of the Financial Administration Act which states that:

> Such officers and employees as are necessary to enable the Auditor General to perform his duties shall be appointed in accordance with the Public Service Employment Act.

As the record across the years testifies, the Commission has for many years failed to recruit sufficient staff of the calibre required by the Office. This failure, together with the problems caused by the Treasury Board's downgrading of its top 28 senior positions, has seriously interfered with the efficient discharge of my responsibilities to the House. In light of certain inaccurate and misleading state-

ments made over the past year or so, I think it is important at this time to remind the members of the House briefly once again of the circumstances underlying this unfortunate situation.

In its Second Report 1963 tabled in the House of Commons on February 5, 1963, the Public Accounts Committee strongly recommended that the Public Service Commission reconsider its position with respect to its right under section 74 of the Civil Service Act to delegate to the Auditor General the right to recruit and manage his own staff. The Commission refused to make such delegation. I was, however, able to advise the House in 1964 of arrangements I had made in November 1963 with the then Chairman of the Commission whereby the Commission seconded a senior employee from its staff to the staff of the Auditor General to handle staff recruitment. This constituted a modified delegation of authority to recruit which it was felt at that time should ease the situation. However, results during the following ten years have failed to bring the improvement expected and I have so advised the House and the Public Accounts Committee at various intervals. More recently the Chairman of the Commission has offered me a form of delegation of recruiting authority subject to periodic monitoring by the Commission. I have advised the Chairman and the Public Accounts Committee on several occasions why, in light of experience over the years, I see no advantage at all to the Auditor General accepting the kind of limited delegation he offered. It represents little, if any, improvement over the 1963 arrangement which has remained in effect ever since. As I have repeatedly stated, the only solution to this matter is for the Auditor General to be completely free to recruit and manage his small professional staff. The Government finally recorded its agreement with my views on this in March 1972 and the change necessary to bring this about will be found in the new draft legislation prepared by the parliamentary committee described below.

Nothing has changed during the past year to give the Office the relief it has needed for so long. When the question of the delay of my 1971 Report came up in Parliament in March 1972, the Government stated it was prepared to see the Auditor General completely free of the central controls now exercised by the Public Service Commission and the Treasury Board over his staff, that is staff recruitment, salary classification and organization of his Office, provided appropriate legislation could be prepared and approved by the Public Accounts Committee and submitted to Parliament. It was contemplated that such legislation would give the Auditor General the freedom in these areas already enjoyed by those responsible for the employment of over half of all Crown employees, including government agencies and Crown corporations.

The Public Accounts Committee was given direction by Parliament to this end on March 27, 1972, the instruction reading: "To prepare a draft bill concerning the office, functions and powers of the Auditor General." The following day, March 28, the Public Accounts Committee met and passed a resolution reading as follows:

> That the Chairman of the Committee be authorized to seek assistance from the Auditor General of Canada, the Department of Justice and both Houses of Parliament to prepare a

> draft bill concerning the office, functions and powers of the Auditor General, such draft bill to be presented to this Committee by October 1, 1972 or at the earliest opportunity thereafter if the Committee is not then sitting.

The assistance obtained by the Public Accounts Committee consisted of the establishment of a drafting committee on March 29, 1972, under the chairmanship of the Law Clerk and Parliamentary Counsel of the House of Commons, and including the Law Clerk and Parliamentary Counsel of the Senate, a senior officer of the Department of Justice and the legal adviser to the Auditor General. This committee has met regularly since its formation notwithstanding the dissolution of Parliament and the consequent absence of any Public Accounts Committee to which it could report under its terms of reference. It has now completed its work and is ready to submit its proposed draft legislation to the Public Accounts Committee when that Committee can meet to receive it. Meanwhile, I have had an opportunity to examine the committee's proposals and I am pleased to advise the House that they meet the objectives I have sought for so long. I consider the draft bill in the form proposed to be highly satisfactory and have no hesitation in commending it to the Public Accounts Committee and to the House.

The work upon which this drafting committee has been engaged is of great importance to the Auditor General and to the future of his work for Parliament. It points up more clearly than anything else that if the Auditor General of Canada is to be truly independent, he must be free to recruit the staff he needs and to determine their salary classifications within the framework of the Public Service of Canada.

Development in the Office Across the Years

9. If, as and when this new legislation becomes law, changes must be made in the internal organization of the Office to enable it to handle its heavy workload more efficiently in the days ahead, particularly to enable the Report of the Auditor General to be completed and submitted to the House within the time called for by the statute. Its senior officers must be freer to concentrate on auditing research, staff training and the development of modern techniques in new areas such as electronic data processing.

I have struggled to achieve such a reorganization over the past few years because it is the responsibility of the Auditor General to initiate such changes. However, faced as my officers and I have been with the day-to-day workload of a large auditing practice and problems such as the Treasury Board's downgrading of my senior officer positions and the staff shortage, I reluctantly reached the conclusion that this reorganization should wait until the new legislation is brought down and the Auditor General has the direct authority to initiate such changes. I realize, of course, that I could have submitted such plans to the Treasury Board for approval. The reason I have not done so must be obvious. The long and unfortunate arguments and disagreements I have had with the Treasury Board over the downgrading would, in my view, have rendered it exhaustively time-consuming to have

asked the Treasury Board to consider and approve the kind of reorganization planning we have in mind and which is so sorely needed. There is a limit how far the Auditor General should have to go in arguing with people whose financial records he is required to audit and report upon to the House. It could have seriously heightened the problems arising from the conflict of interest which has inhibited the independence of the Auditor General and the efficient discharge of his work for Parliament. I hope very much that, given the trust and loyalty which I have had over so many years from my dedicated staff, my successor may be successful in achieving these goals when the new legislation is brought down.

My officers and I have instead concentrated our efforts on other matters, such as the development of a good computer auditing capability, a task which is demanding our full attention until it is perfected. More and more, auditors at all levels must meet this challenge if the auditing profession is to keep pace with its clients' plans and developments in the field of electronic data processing and information systems. In addition we have sought to keep abreast of research in other areas vital to our work such as existing legislation, amended and new legislation coming from Parliament, committee minutes, special reports and the like so that we may keep our understanding of the policies underlying legislation in good repair. Last but not least, we have done our best to advance our bilingual abilities along the lines established by the Government.

During the past twelve years the size of our Government has grown substantially. Expenditure has increased from $5.7 billion in the fiscal year 1959-60 to $14.8 billion in the fiscal year 1971-72 and now to a forecast of spending and lending to the order of more than $20 billion in 1973-74. With these mounting expenditure levels and the increased number of government departments and Crown corporations, the size of the Office has also gone up— from a staff of 142 in 1959-60 to 268 in 1971-72 and a requirement of 353 during 1973-74.

It is significant that in 1959-60 the staff included only 10 employees who possessed accounting degrees. Today we have over 125, or nearly 50%, of our staff holding the degree of chartered accountant or other Canadian accounting qualifications. In 1964 and 1965 the Institutes of Chartered Accountants of Ontario and Quebec helped me substantially towards achieving this goal by officially extending to the Office of the Auditor General of Canada the right to article and train students-in-accounts in my Office. I am pleased to advise the House at this time that a similar right has recently been extended to the Office by the Council of the Institute of Chartered Accountants of Alberta. Recognition of this kind is a signal honour and privilege never accorded before or since by these Institutes to any office in either the legislative or executive branches of the federal government. That students can train and write their examinations for their admission to these Institutes from the Office in this way bears eloquent testimony to the training and work standards we have sought to achieve across the years.

The Office staff is not large by other standards. Our figure of 268 compares with about 4,800 on the staff of the Comptroller General of the United States and 500-odd on the staffs of the Auditors General of the United Kingdom and Australia

whose practices are comparable to the Canadian one. Given a continuation of the high standards we have always sought, I have never believed the Office in Canada should require more than 375 or so on its staff.

We complete our audit work to the point of reporting to the managements of the departments, agencies and Crown corporations we audit. In the case of Crown corporations, it was our practice for many years to issue detailed long-form reports on the results of our work which reports served as useful references to the managements, boards of directors and ministers responsible for the operations. It was suggested by the Treasury Board some years ago that we extend this practice to government departments. However, we have never been able to do this because unhappily the pressure of work on my senior officers became so serious a few years ago that we were forced to forgo issuing long-form reports for the time being, even to the Crown corporations. I hope very much that the time will come when the Office can return to issuing such annual reports, not only to Crown corporations but to all government departments and agencies.

The major report writing task we face each year, of course, continues to be the Report of the Auditor General to the House of Commons. Every paragraph comment has to be checked and double-checked for factual correctness and submitted to the deputy minister concerned. From a 30-page document in 1959, this Report has grown in size across the years to its present substantial proportions. It covers the whole range of our auditing work during the preceding government fiscal year.

In addition to all of this work in Canada, the Office today is heavily engaged on large international auditing assignments. As the external auditor of the International Civil Aviation Organization, the United Nations specialized agency in Canada, I have been a member and Chairman of the Panel of External Auditors of the United Nations and the specialized agencies for many years. In 1966-67 the Government of Canada nominated the Auditor General of Canada to serve on the Board of Auditors of the United Nations itself. This led to my election by the General Assembly of the United Nations to this position in 1967 and ever since my Office has been deeply involved several times a year in New York, Geneva, Vienna and other world capitals where the United Nations has offices. This work has been very demanding, the more so for me and my staff as I have been Chairman of the Board of Auditors for most of my tenure of office. In addition to the regular audit work carried out, I was asked by the United Nations to undertake special management studies in such United Nations bodies as the United Nations Development Programme, New York, the United Nations High Commissioner for Refugees, Geneva, and the United Nations Industrial Development Organization, Vienna. We also carried out special studies in the field of electronic data processing at the United Nations in New York and Geneva. Probably our most important recommendation was for a reorientation of computer facilities aimed at setting up an international computer centre in Geneva available at that point to all member organizations of the United Nations family. This Canadian recommendation met with immediate response throughout the United Nations and the member states

which led to its adoption six months later by the General Assembly. The International Computer Centre, Geneva, started functioning last year.

In addition to this work at the United Nations, the Office has also been busy carrying out other important international audits outside Canada. The Assistant Auditor General has served on three occasions on the Audit Committee of the International Monetary Fund in Washington and in 1968 and last year was its Chairman. One of my Directors has also served on the Board of Auditors of the Organization for Economic Co-operation and Development in Paris now for some years.

These international assignments, the cost of which the Office recovers for Canada to the extent of $150,000 annually, have provided extremely valuable experience for many of our officers, although they have been demanding in terms of travelling and time and, so far as the United Nations is concerned, have for the most part required my presence personally on the job along with my two Board colleagues, the Controller General of Colombia and the Auditor General of Pakistan.

In September 1971 the world body of Auditors General, known as the International Organization of Supreme Audit Institutions, held its Seventh Congress in Canada when 88 countries were represented. It is generally agreed that this Congress, which was held in Montreal with visits to Quebec City and Ottawa, was the most successful and interesting gathering held by this world body thus far, demonstrating as it did very clearly how nations more advanced than others in accounting and auditing techniques are able to help less developed countries. It is of interest to note that our Canadian Audit Office has itself across the years trained senior auditors from over 25 of the less developed countries and continues to do so. One of the interesting contributions made to this Congress was the introduction of a new proposed quarterly magazine, "International Journal of Government Auditing", created for the Congress by a partnership of Canada, the United States and Venezuela. It is expected that this Journal will be launched some time later this year. It will be produced in Canada for distribution quarterly to the Audit Offices of the world and to other interested subscribers. Available in English, French and Spanish, it will be financed by some 26 of the developed countries and the United Nations.

I have the honour to be the President of this world body, the International Organization of Supreme Audit Institutions (INTOSAI), until it holds its next Congress in Madrid in 1974.

The Responsibility of Government

10. With power goes responsibility and nowhere is this truer than in the relationship of Executive Government to Parliament. It is one of the fundamental principles of our constitutional heritage that the House of Commons should control the finances of the country.

With its members elected from all walks of life, the House of Commons must by its very nature always include many who are not trained in finance and the law to

the degree whereby they can fully understand the intricacies and details of Estimates running into billions of dollars a year which it is their duty to approve. The responsibility of the Executive to guide and assist all members of the House to exercise their constitutional duties is fundamental to parliamentary control. This responsibility has never been greater in the long history of the Parliament of Canada than it is today.

Expenditures of public moneys at the level of $20 billion a year are today over three times larger than they were a decade ago. The number of employees on the federal payroll, which in 1961-62 was 330,000, reached 405,000 in 1971-72. This figure could well reach 450,000 in 1973-74 on the basis of the recently tabled Estimates for that year. The changes which have taken place over this period in the nature and diversity of public spending, including its presentation to Parliament, continue to add vast new dimensions to the problem. They contain many new challenges as expenditures become more complex than ever before. Much of it relates to advanced technological projects, scientific research and the new and different subsidy arrangements including welfare schemes of unprecedented proportions. This places a heavier responsibility than ever before on those charged with administering public funds to ensure that proposed expenditures are estimated efficiently, disclosed to the House fairly, explained fully and accounted for correctly.

In my 1968 Report to the House I suggested that it would be of material assistance were Parliament to consider commissioning a management study of government organization at least once every decade. I said I believed this should take the form of an audit of the governmental organization, its management, methods and procedures, carried out by a qualified team for the benefit of Parliament, the Government and the taxpayers. This suggestion has never been discussed by Parliament, the Public Accounts Committee or the Government. Today I am more convinced than ever of the need of such a study. I suggest to the House that it at least merits consideration and discussion in the interests of containing, if not reducing, unnecessary government overhead costs.

Notwithstanding the size and complexity of the items involved in public expenditure at these levels, the principles underlying the responsibility of the Government remain unchanged. It is the right, privilege and duty of the House of Commons to control the finances of the country. It is the responsibility of the Government to assist the House in discharging this responsibility by submitting the proposed spending to the members in as simple and straightforward a manner as it can devise. No short cuts can be countenanced in this process. Public money is trust money taken from the taxpayers and appropriated by Parliament to the Government to administer for the benefit of all the people. The Government can only discharge this responsibility by giving the elected representatives of the people a full and fair opportunity to understand all expenditure proposals.

The heart of this responsibility within our government organization rests with the Treasury Board, a committee of the Queen's Privy Council which under section

5(1) of the Financial Administration Act is charged with acting for the Privy Council on all matters relating to:

(a) general administrative policy in the public service of Canada;

(b) the organization of the public service or any portion thereof, and the determination and control of establishments therein;

(c) financial management, including estimates, expenditures, financial commitments, accounts, fees or charges for the provision of services or the use of facilities, rentals, licences, leases, revenues from the disposition of property, and procedures by which departments manage, record and account for revenues received or receivable from any source whatever;

(d) the review of annual and longer term expenditure plans and programs of the various departments of Government, and the determination of priorities with respect thereto;

(e) personnel management in the public service, including the determination of terms and conditions of employment of persons employed therein; and

(f) such other matters as may be referred to it by the Governor in Council.

That the Treasury Board seeks to discharge this responsibility conscientiously I do not question. What I do question and deem it my duty to draw to the attention of the House are the increasing tendencies displayed by the Treasury Board and its staff to devote their energies and resources towards circumventing parliamentary control rather than towards improving the efficiency of departmental and agency operations by remedying situations which for years have demanded attention.

My Reports to the House over the past several years, as well as many of the recommendations of the Public Accounts Committee, have been replete with cases where action by the Treasury Board could, while achieving a more efficient use of manpower and material resources, have guided and helped departments and agencies to avoid continued repetition of such mistakes in the future. In this year's Report I direct the attention of the House to no less than 130 cases requiring effective financial management action. At least 65% of these cases could have been dealt with, and in many instances disposed of, by the Treasury Board within the terms of its statutory responsibilities. Yet never has any President of the Treasury Board responded to the criticisms of such mistakes set out in my Reports by replying to such criticisms and detailing constructively steps which could and should be taken to assist departments and agencies in administering and improving their financial performance. This is particularly true since departmental responsibilities were so greatly increased in 1967 with the abandonment of pre-auditing and commitment control which had been carried out by the Comptroller of the Treasury.

I have always felt that the British system of Treasury Minutes issuing with respect to each of the Auditor General's comments would be extremely helpful to our government departments in Canada, to the Public Accounts Committee and to the Auditor General. Unhappily such comments as have been forthcoming from the Treasury Board on items contained in my Reports have been limited to rare appearances by respective Secretaries of the Treasury Board before the Public

Accounts Committee with invariably inconclusive and unsatisfactory results for all concerned.

There are many examples of lack of any constructive response by the Treasury Board to deteriorating situations to be found in my Reports to the House over the past several years. Obvious ones are the cases of several agencies whose accounts I have been unable to certify because the condition of their accounting records and internal control had deteriorated to such an extent that it was not possible to express an opinion on the correctness of the figures. In 1968 I referred to such a situation in the accounts of the Government of the Northwest Territories, in 1971 to another in the accounts of the Northern Canada Power Commission, while in this Report there are two more instances where for the same reasons I have been unable to certify the accounts to the responsible Minister and to the House, namely the National Harbours Board (paragraph 154) and the Freshwater Fish Marketing Corporation (paragraph 346). In each of these cases my officers and I have worked constructively with the managements, in some instances to locate competent accounting personnel. As a result, the managements in each case have taken action to remedy the defects and there is now every indication that matters henceforth will be in good order. I have never understood why the Treasury Board, with its strong declaration of seeking to improve management control within departments and agencies, would not have participated in promoting efficiency in cases as serious as these.

Again this year we have numerous examples of transactions demonstrating the continual weakening of parliamentary control (paragraph 52), the non-lapsing balances of votes available for spending in subsequent years (paragraph 53), the government Contingencies Program which contained a salary reserve of $37,678,000 the need for which the Treasury Board staff is unable to demonstrate (paragraph 54), defects in the vote pattern (paragraph 55), the supplementing of parliamentary appropriations (paragraph 56), unpaid accounts carried forward to new fiscal year (paragraph 57), loans and advances representing grants (paragraph 58) and many other similar questions on which the Treasury Board should have expressed its views to the House or to the Public Accounts Committee, case by case, long ago.

Particular attention is directed this year to the sale of aircraft to a foreign government for an amount of $34,113,200 which, as explained in paragraph 74, was not paid into the Consolidated Revenue Fund as the law required. In my opinion the responsibilities attaching to the Treasury Board in this and numerous of the other cases to be found in this and previous Reports to the House, demand that the Treasury Board handle these transactions in such a way as not only to maintain its credibility to Parliament and the public but also to set an example to all the departments and agencies of government in their handling of public money.

In the interests of proper and effective parliamentary control of public expenditure and the restoration of the confidence of the public in the fiscal integrity of the Government, I strongly urge that the Public Accounts Committee examine all of these cases and report to Parliament as expeditiously as possible.

Summary of Expenditure and Revenue

11. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1972, prepared by the Receiver General for inclusion in the Public Accounts and certified by the Auditor General as required by section 55 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The Statement shows revenue of $14,227 million, expenditure of $14,841 million and a deficit of $614 million for the year. By comparison, there was a deficit of $379 million in the preceding year and a surplus of $393 million in 1969-70.

Expenditure

12. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1972, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of $15,253 million, expenditure of $14,841 million and unexpended balances of $412 million.

13. Of the $15,253 million of appropriations available for expenditure in the year, $7,387 million was provided by statutory authorities and $7,808 million was granted by Appropriation Acts (Nos. 2, 3 and 4 of 1971 and No. 1 of 1972) while $58 million remained available from continuing 1970-71 appropriations.

The $14,841 million of expenditure is the net of total expenditure of $15,099 million less revenue of $258 million which was credited to appropriations under authority of Appropriation Acts which authorized departments to spend certain revenues received during the year. Not included in this figure is expenditure of $56 million from postal revenue and $24 million from the Department of National Defence Surplus Crown Assets Account. Gross expenditure was therefore $15,179 million of which $7,468 million (49%) was incurred under statutory authorities, and $7,711 million (51%) was spent under the authority of appropriations granted for the year and continuing appropriations of previous years.

Of the $412 million of unexpended balances at the year-end, $293 million lapsed in compliance with section 30 of the Financial Administration Act and $119 million perleining to the following departments and votes remained available for expenditure in 1972-73 because of special vote wording:

Department	Vote	Particulars	Amount
Agriculture (1970-71)	15	Farm income maintenance	$ 10,000,000
(1971-72).................	15	Farm income maintenance	16,000,000

Department	Vote	Particulars	Amount
External Affairs	20	International Food Aid Program	14,027,000
		International Emergency Relief	$ 8,806,000
			22,833,000
Indian Affairs and Northern Development	30	Northern mineral development assistance grants	2,317,000
Industry, Trade and Commerce	29b	Payments to certain wheat producers	68,000,000
Secretary of State (1968-69)	2	Construction or acquisition of buildings, works, land and equipment—National Arts Centre	71,000
			$ 119,221,000

14. The lapsed balances of $293 million represented 3.7% of the $7,866 million provided under Appropriation Acts. This was after transferring a total of $69 million between votes with parliamentary authority, thus reducing by $69 million the amount which would otherwise have lapsed at the year-end and the Supply that Parliament would otherwise have been asked to provide. In 37 votes of 17 departments, lapsing balances aggregating $164 million represented more than 10% of the amounts appropriated. These include the following votes in which the lapsed balance represented 25% or more of the appropriation:

	Appropriated	Lapsed Amount	%
Treasury Board Vote 5—Contingencies	$ 75,000,000	$ 49,593,000	66
Consumer and Corporate Affairs Vote 20— Operating	236,000	145,000	61
Veterans Affairs Vote 40—Capital	9,695,000	4,899,000	51
Industry, Trade and Commerce Vote 30— World Exhibitions	242,000	115,000	48
Transport Vote 75— Deficit—Jacques Cartier Bridge	825,000	310,000	38
Transport Vote 115b— Great Lakes Pilotage Authority	361,000	128,000	35
Finance Vote 30—Tariff Board	431,000	126,000	29

15. The following summary compares expenditure for the past two years:

	1971-72	1970-71	Increase (Decrease) Amount	%
Agriculture	$ 286,096,000	$ 277,006,000	$ 9,090,000	3.3
Communications	21,674,000	13,897,000	7,777,000	56.0
Consumer and Corporate Affairs	23,946,000	20,219,000	3,727,000	18.4
Energy, Mines and Resources	175,580,000	149,488,000	26,092,000	17.5
Environment	200,724,000	156,671,000	44,053,000	28.1
External Affairs	314,448,000	281,585,000	32,863,000	11.7
Finance	3,542,080,000	3,139,544,000	402,536,000	12.8
Governor General and Lieutenant-Governors	1,197,000	1,153,000	44,000	3.8
Indian Affairs and Northern Development	426,644,000	350,654,000	75,990,000	21.7
Industry, Trade and Commerce	362,699,000	250,569,000	112,130,000	44.8
Justice	28,719,000	23,090,000	5,629,000	24.4
Labour	17,306,000	13,478,000	3,828,000	28.4

	1971-72	1970-71	Increase (Decrease) Amount	%
Manpower and Immigration	$ 792,917,000	$ 748,801,000	$ 44,116,000	5.9
National Defence	1,895,175,000	1,817,876,000	77,299,000	4.3
National Health and Welfare	2,706,075,000	2,337,996,000	368,079,000	15.7
National Revenue	185,246,000	158,478,000	26,768,000	16.9
Parliament	32,597,000	27,236,000	5,361,000	19.7
Post Office	413,334,000	368,596,000	44,738,000	12.1
Privy Council	15,531,000	13,055,000	2,476,000	19.0
Public Works	336,756,000	330,658,000	6,098,000	1.8
Regional Economic Expansion	346,393,000	297,831,000	48,562,000	16.3
Secretary of State	867,834,000	707,940,000	159,894,000	22.6
Solicitor General	260,062,000	222,789,000	37,273,000	16.7
Supply and Services	83,726,000	74,647,000	9,079,000	12.2
Transport	512,446,000	450,105,000	62,341,000	13.9
Treasury Board	438,428,000	463,433,000	(25,005,000)	(5.4)
Urban Affairs and Housing	129,945,000	75,387,000	54,558,000	72.4
Veterans Affairs	423,287,000	409,961,000	13,326,000	3.3
	$ 14,840,865,000	$ 13,182,143,000	$ 1,658,722,000	12.6

In the following paragraphs attention is drawn to significant increases or decreases in expenditure charged to individual appropriations or groups of appropriations.

16. *Agriculture.* The increase in expenditure for the year was $9.1 million (3.3%) due mainly to increases of $4.1 million (37%) in the cost of departmental administration and $2.3 million (22%) in the cost of administration of the Canadian Grain Commission.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $6.6 million paid during the year and charged to the reserve for salary revisions.

17. *Communications.* The increase of $7.8 million (56%) in departmental expenditure was due to increases of $4.9 million (53%) in operating expenditure and $2.8 million (61%) in capital expenditure.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $211,000 paid during the year and charged to the reserve for salary revisions.

18. *Consumer and Corporate Affairs.* The increase of $3.7 million (18%) included increases of $1.4 million (20%) in the Corporate Affairs Program, $854,000 (47%) in the Administration and Information Services Program, and $525,000 (34%) with respect to the Office of Investigation and Research. Offsetting these was a decrease of $447,000 (28%) for the Prices and Incomes Commission.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $550,000 paid during the year and charged to the reserve for salary revisions.

19. *Energy, Mines and Resources.* The expenditure of the Department increased by $26 million (17%) due mainly to increases of $9.4 million (45%) in the Earth Sciences Program, $8.1 million (12%) for Atomic Energy of Canada Limited, and $4.7 million (61%) for the Atomic Energy Control Board.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $1.4 million paid during the year and charged to the reserve for salary revisions.

20. *Environment.* There was an increase of $44 million (28%) in departmental expenditure. This included $36 million (73%) under the Renewable Resources Program, of which $30 million (73%) applied to operating expenditure and $6 million (73%) to capital expenditure. Other increases were $4.8 million (24%) for capital expenditure under the Environmental Quality Program and $4.2 million (124%) in the cost of administration, offset by a decrease of $2.7 million (43%) in grants and contributions.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $3.9 million paid during the year and charged to the reserve for salary revisions.

21. *External Affairs.* The increase in departmental expenditure included $20 million (42%) in operating expenditure due primarily to the Government's decision to integrate administrative and support services for foreign operations of other departments, $1.9 million (28%) in capital expenditure for missions abroad, and $2 million (12%) in grants and contributions. There was also an increase of $8.8 million (4.2%) in expenditure for the Canadian International Development Agency due to increases of: $11 million for International Emergency Relief ($14 million in 1971-72 compared with $3 million in 1970-71), $10 million (16%) in International Development Assistance, $6 million (25%) in grants to international organizations for multilateral assistance programs, $3.4 million (40%) in contributions to non-government organizations for approved development assistance projects, $1.1 million (14%) in the cost of administration, and $1 million (71%) in the grant to the International Development Research Centre; offset by a decrease of $24 million (24%) in the International Food Aid Program.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $744,000 paid during the year and charged to the reserve for salary revisions.

22. *Finance.* Expenditure increased by $403 million (13%) due mainly to increases of $197 million (16%) in subsidies and other payments to the provinces, $187 million (10%) in interest on outstanding bonds and treasury bills, $11 million (54%) in disbursements under the Canada Student Loans Act, *R.S., c. S-17,* and $2 million (35%) in administration costs.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $205,000 paid during the year and charged to the reserve for salary revisions.

23. *Indian Affairs and Northern Development.* An increase of $39 million (18%) in the cost of the Indian and Eskimo Affairs Program comprised increases of $26 million (15%) in operating expenditure and $13 million (27%) in capital expenditure. The cost of the Northern Development Program increased by $20 million (23%), reflecting an increase of $27 million (74%) in payments to the Northwest Territories and the Yukon Territory, offset by decreases of $5.8 million (20%) in operating expenditure and $1.7 million (8.3%) in capital expenditure. The Conservation Program expenditure increased by $16 million (47%), due to increases of $7.2 million (39%) in operating expenditure and $8.5 million (58%) in capital expenditure.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $3.1 million paid during the year and charged to the reserve for salary revisions.

24. *Industry, Trade and Commerce.* The increase in expenditure of $112 million (45%) included $51 million (145%) in the carrying costs of temporary wheat reserves and payments under the Prairie Grain Advance Payments Act, *R.S., c. P-18,* $30 million (77%) for Statistics Canada, due mainly to costs connected with the 1971 census, and $18 million (24%) for grants and contributions under the Trade-Industrial Program. Other expenditure, for which there was no counterpart in the preceding year, included $11 million under the Employment Support Act, *1970-71-72, c.56,* $7.8 million under the General Adjustment Assistance Program, and $2.7 million in interest payments pursuant to the Temporary Wheat Reserves Act, *R.S. (2nd Supp.), c.31.* There was a decrease of $7.1 million (39%) in the reimbursement of losses of the Canadian Wheat Board and $2.8 million (96%) in the costs of Canada's participation in world exhibitions.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $1.2 million paid during the year and charged to the reserve for salary revisions.

25. *Justice.* The increase of $5.6 million (24%) was due mainly to increases of $3.2 million (24%) in judges' salaries, allowances and pensions and $2.3 million (25%) in departmental operating expenditure.

26. *Labour.* The increase in expenditure of $3.8 million (28%) was due to increases of $2.5 million (27%) in the cost of administration and $1.3 million (31%) in compensation for injury and other claims by public service employees.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $1.3 million paid during the year and charged to the reserve for salary revisions.

27. *Manpower and Immigration.* Expenditure increased by $44 million (5.9%). There were payments of $84 million under the Local Initiatives Program, $2.4 million for the Training-On-The-Job Program, and $1.3 million to cover the actuarial adjustment in government annuities pursuant to the Government Annuities Act, *R.S., c. G-6,* which had no counterpart in 1970-71. There were increases of $47 million (25%) in operating expenditure for the Development and Utilization of Manpower Program, $1.6 million (22%) in manpower mobility payments and $1.2 million (24%) in payments under the Vocational Rehabilitation of Disabled Persons Act, *R.S., c. V-7.* There was a decrease of $94 million (55%) in capital assistance pursuant to the Adult Occupational Training Act, *R.S., c. A-2.*

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $2.2 million paid during the year and charged to the reserve for salary revisions.

28. *National Defence.* The increase of $77 million (4.3%) was due mainly to increases of $93 million (7.1%) in operating expenditure for Defence Services, $13 million (28%) in interest payments to the Canadian Forces Superannuation Account, and $2.1 million (31%) in the cost of administration, offset by decreases of $23 million (26%) in amortization of the actuarial deficiency in the Canadian Forces Superannuation Account and $13 million (5.7%) in capital expenditure.

The Department's expenditure of $1,895 million does not include $24 million expended from the Department's Surplus Crown Assets Account representing an increase of $23 million of which $13 million was capital expenditure and $10 million was operating expenditure. This Account, established by Vote 48, Appropriation Act No. 2, 1966, *1966-67, c.3,* is credited with revenue received from the sale of surplus buildings, works, land, material, supplies and equipment. Also not included are retroactive salary adjustments of $13 million paid during the year which were charged to the reserve for salary revisions.

29. *National Health and Welfare.* The increase in expenditure comprised $366 million (16%) in departmental expenditure and $1.8 million (5.1%) in the amount expended by the Medical Research Council on scholarships and research grants. Departmental administration expense increased $3.2 million (46%) and Health Services expenditure increased $1.4 million (22%). Payments under the Health Insurance and Resources Program were up $282 million (24%) due to increased

contributions to the provinces of $176 million (44%) pursuant to the Medical Care Act, *R.S., c. M-8,* and $110 million (15%) pursuant to the Hospital Insurance and Diagnostic Services Act, *R.S., c. H-8,* offset by a decrease in payments of general health grants of $4.3 million (22%). Expenditure for the Food and Drug Services Program increased $3.9 million (25%) and for the Fitness and Amateur Sport Program by $3.2 million (60%). Payments under the Welfare Services Program increased $69 million (6.7%) due to increases of $65 million (17%) in payments to the provinces under the Canada Assistance Plan, *R.S., c. C-1,* and $5.8 million (47%) in operating expenditure.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $1.7 million paid during the year and charged to the reserve for salary revisions.

30. *National Revenue.* The Department's expenditure increased by $27 million (17%) due mainly to increased salary costs.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $4.7 million paid during the year and charged to the reserve for salary revisions.

31. *Parliament.* Expenditure increased $5.4 million (20%) due mainly to the increase of $2.8 million (38%) in salaries and expenses of the Members of the House of Commons and $1.9 million (14%) in the cost of administration. Expenditure of the Senate increased $538,000 (11%).

32. *Post Office.* The expenditure of the Post Office increased by $45 million (12%) due mainly to increases of $40 million (14%) in salaries and allowances, $2.8 million (60%) in acquisition of vehicles and mechanical equipment and $1 million (111%) in information services.

The Post Office expenditure for 1971-72 does not include retroactive salary adjustments of $1.3 million paid during the year and charged to the reserve for salary revisions.

33. *Privy Council.* The increase in expenditure of $2.5 million (19%) included increases of $1.2 million (22%) in general program expenditure, $601,000 (130%) for the Secretariat for Science Policy and Technology, $477,000 (123%) for the Office of the Commissioner of Official Languages, $380,000 (22%) for the Economic Council of Canada, offset by a decrease of $634,000 (68%) in expenditures of Royal Commissions.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $133,000 paid during the year and charged to the reserve for salary revisions.

34. *Public Works.* The increase of $6.1 million (1.8%) in expenditure included an increase of $40 million (18%) in the cost of the Accommodation Program that was partially offset by a decrease of $37 million (94%) in Trans-Canada Highway costs under the Transportation and Other Engineering Program.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $2.7 million paid during the year and charged to the reserve for salary revisions.

35. *Regional Economic Expansion.* The increase of $49 million (16%) was due to increases of $44 million (19%) in grants and contributions and $4.3 million (20%) in operating expenditure. The major increases in grants and contributions were $39 million (65%) for industrial incentives, $26 million under the Atlantic Provinces Special Highway Agreements which had no counterpart in 1970-71, and $17 million (50%) under the Fund for Rural Economic Development (FRED), which were offset by decreases of $29 million (30%) under the Federal-Provincial Special Area Agreements (infrastructure), $4.7 million (75%) in payments under programs of the former Atlantic Development Board and $2.2 million (39%) in payments to NewStart Corporations.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $355,000 paid during the year and charged to the reserve for salary revisions.

36. *Secretary of State.* The increase of $160 million (23%) included $62 million (16%) in payments to the provinces for post-secondary education, $25 million (49%) for grants and contributions under the Bilingualism Development Program, $25 million for contributions and operating expenditure of the Opportunities for Youth Program which had no counterpart in the previous year, $15 million (9%) for the operating expenditure of the Canadian Broadcasting Corporation, $10 million (158%) for grants, contributions and operating expenditure under the Citizenship Development Program, $9.7 million for the Centenary of the Confederation of British Columbia with Canada for which $155,000 was spent in the previous year, $3 million (36%) for the expenditure of the National Museums of Canada, $2.6 million (30%) for grants and operating expenditure of the Translation Program, $1.4 million (44%) in operating expenditure of the Canadian Radio-Television Commission and $1.2 million (46%) in the cost of administration of the National Library. Offsetting these increases was a decrease of $4.5 million (66%) in grants, contributions and operating expenditure under the Arts and Cultural Support Program.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $1.3 million paid during the year and charged to the reserve for salary revisions.

37. *Solicitor General.* The expenditure of the Royal Canadian Mounted Police increased by $26 million (18%) including $19 million (17%) for pay increases and normal growth of the Force and $7 million (54%) for capital expenditure comprising $3 million (65%) for buildings and $4 million (46%) for equipment. The expenditure of the Correctional Services Program increased by $10 million (14%) due mainly to increased salary costs of $8.4 million (19%). Administration costs of the Department increased by $453,000 (33%).

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $2.5 million paid during the year and charged to the reserve for salary revisions.

38. *Transport.* The increase of $62 million (14%) was due mainly to increases of $22 million (45%) in the Surface Transportation Program, $20 million (15%) in the Air Transportation Program and $11 million (12%) in the Marine Transportation Program. Expenditure of the Canadian Transport Commission increased by $4.2 million (3.6%) due primarily to an increase of $4.1 million (146%) in payments to railways and trucking companies under provisions of the Atlantic Region Freight Assistance Act, *R.S., c. A-18.* The expenditure of the Transportation Development Agency increased to $4.5 million, compared with $556,000 in 1970-71. Expenditure of The St. Lawrence Seaway Authority increased by $3.5 million (34%) and the National Harbours Board by $1.2 million (47%).

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $8.5 million paid during the year and charged to the reserve for salary revisions.

39. *Treasury Board.* The decrease of $25 million is accounted for mainly by a decrease of $65 million in expenditure from the Contingencies Vote offset in part by increases of $18 million (7.7%) in contributions to the Public Service Superannuation Account, $5.2 million (28%) in contributions to the Canada Pension Plan Account, $6.5 million (38%) in respect of public service insurance plans, $2.7 million (35%) in administration costs and $1.5 million (32%) in capital expenditure of the National Research Council of Canada.

40. *Urban Affairs and Housing.* Expenditure of Central Mortgage and Housing Corporation increased by $35 million (75%) due to increases of $18 million (30%) in costs of administration and $17 million (85%) for the reimbursement of losses from the operation of public housing projects. Of the increase of $17 million (61%) in funds provided to the National Capital Commission $16 million (96%) represented payments made to the National Capital Fund.

41. *Veterans Affairs.* There was a net increase of $13 million (3.3%) in expenditure due mainly to increases of $18 million (8.7%) in pensions for disability and death, attributable to an approximate 10% rate increase, $7 million (12%) in

operation and maintenance of treatment services, and $1.2 million (22%) in the operating expenditure of the Veterans' Land Administration Program, offset by decreases of $12 million (13%) in war veterans allowances and $2.6 million (35%) in capital expenditure for treatment services.

The Department's expenditure for 1971-72 does not include retroactive salary adjustments of $2.1 million paid during the year and charged to the reserve for salary revisions.

42. *Commissions under Part I of the Inquiries Act, R.S., c. I-13.* The expenditure of these Commissions during 1971-72 and their cumulative expenditure from the respective dates of establishment to March 31, 1972, were:

	Date of establishment	Number of employees at March 31, 1972	Expenditure during year	Cumulative expenditure
Royal Commission on:				
Pilotage	Nov. 1, 1962	—	$ 56,000	$ 1,527,000
Bilingualism and Biculturalism	July 19, 1963	—	63,000	9,061,000
Farm Machinery	May 26, 1966	—	24,000	1,569,000
The Status of Women in Canada	Feb. 16, 1967	—	14,000	1,948,000
Indian Claims Commission	Dec. 19, 1969	4	139,000	238,000
		4	*296,000*	*14,343,000*
The War Claims Commission— World War II	Oct. 23, 1952	—	26,000	15,263,000
The Commission of Inquiry into the Non-Medical Use of Drugs	May 29, 1969	45	1,234,000	2,626,000
Prices and Incomes Commission	June 19, 1969	89	1,621,000	4,259,000
Commission of Inquiry into the Pollution of Canadian Waters by oil escaping from the steam tanker *Arrow*	Mar. 12, 1970	—	27,000	165,000
Foreign Claims Commission	Dec. 8, 1970	3	56,000	82,000
		141	$ 3,260,000	$ 36,738,000

The expenditure of the first five of these Commissions was charged to Privy Council Vote 1 while the expenditure of the War Claims Commission was charged to the War Claims Fund, that of the Commission of Inquiry into the Non-Medical Use of Drugs to National Health and Welfare Vote 1, that of the Prices and Incomes Commission to Consumer and Corporate Affairs Vote 25, that of the Commission of Inquiry into the Pollution of Canadian Waters by oil escaping from the steam tanker *Arrow* to Transport Vote 5 and that of the Foreign Claims Commission to the Foreign Claims Fund.

Revenue

43. The Summary of Revenue by Main Classification and Departments for the fiscal year ended March 31, 1972, prepared by the Receiver General for inclusion in the Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4

to this Report. The Summary shows tax revenue accounting for $12,562 million of the total revenue of $14,227 million. This total revenue figure does not include revenue of $258 million which was credited directly to parliamentary appropriations under authority of certain Appropriation Acts, postal revenue of $56 million which was used to meet certain postal expenses under authority of the Post Office Act, *R.S., c. P-14*, or the proceeds from sales of surplus property and equipment of $14 million which were credited to the Surplus Crown Assets Account of the Department of National Defence.

44. The following table summarizes the revenue shown in the Summary, by principal sources, for the past three years:

	1971-72	1970-71	1969-70
Tax revenue—			
Personal income tax	$ 5,581,983,000	$ 4,696,482,000	$ 4,085,121,000
Corporation income tax	2,183,132,000	2,218,528,000	2,611,961,000
Income tax on dividends, interest, etc. going abroad	287,727,000	258,151,000	248,511,000
Social development tax	408,400,000	566,250,000	476,500,000
Sales tax	1,984,707,000	1,707,501,000	1,716,899,000
Excise taxes (other than sales tax)	388,411,000	403,223,000	378,424,000
Customs import duties	988,599,000	814,544,000	818,283,000
Excise duties	606,551,000	561,038,000	518,844,000
Estate tax	132,016,000	119,835,000	100,631,000
Other tax revenue	392,000	315,000	251,000
	12,561,918,000	*11,345,867,000*	*10,955,425,000*
Non-tax revenue—			
Return on investments	1,133,231,000	1,000,153,000	860,032,000
Net postal revenue	403,791,000	337,571,000	354,753,000
Other non-tax revenue	127,618,000	119,460,000	143,941,000
	1,664,640,000	*1,457,184,000*	*1,358,726,000*
	$ 14,226,558,000	$ 12,803,051,000	$ 12,314,151,000

45. The reduction in corporation income tax is due partly to the elimination of the 3% surtax effective July 1, 1971, and partly to the exercise by corporations of their option to base tax instalments on the income of the previous year. The reduction in the revenue from the social development tax results from the discontinuance of that tax effective January 1, 1972. The reduction in excise taxes (other than sales tax) is due to the repeal of the excise tax on television sets and tubes, and phonographs, radios and tubes with effect from June 19, 1971.

46. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, *R.S., c. 0-6*. These taxes which amounted to $2,118 million ($1,237 million on personal income, $212 million on corporation income, and $669 million on sales) were credited to the Old Age Security Fund.

47. *Excise taxes (other than sales tax).* The following is a summary of collections during the year ended March 31, 1972, with comparable amounts for the two previous years:

	1971-72	1970-71	1969-70
Cigarettes	$ 306,231,000	$ 295,976,000	$ 272,949,000
Toilet articles and preparations	22,037,000	21,430,000	19,755,000
Manufactured tobacco	18,939,000	18,411,000	18,110,000
Jewellery, clocks, watches, chinaware, etc.	11,142,000	10,190,000	10,394,000
Wines	9,372,000	8,064,000	6,991,000
Television sets and tubes	6,473,000	24,414,000	25,137,000
Cigars	4,951,000	5,026,000	4,786,000
Phonographs, radios and tubes	3,718,000	14,142,000	15,627,000
Sundry	6,545,000	7,196,000	5,830,000
Refunds and drawbacks	—997,000	—1,626,000	—1,155,000
	$ 388,411,000	$ 403,223,000	$ 378,424,000

48. *Excise duties.* A listing of excise duties collected during the year ended March 31, 1972, in comparison with corresponding amounts for the two previous years, is given in the following table:

	1971-72	1970-71	1969-70
Spirits	$ 235,249,000	$ 209,361,000	$ 194,733,000
Cigarettes	213,174,000	204,168,000	185,966,000
Beer	160,607,000	149,153,000	139,353,000
Other	8,246,000	8,042,000	7,906,000
Refunds and drawbacks	—10,725,000	—9,686,000	—9,114,000
	$ 606,551,000	$ 561,038,000	$ 518,844,000

49. *Return on investments.* The following is a listing of the revenue from the various loans and investments in 1971-72, along with the comparable figures for the two previous years:

	1971-72	1970-71	1969-70
Central Mortgage and Housing Corporation	$ 320,831,000	$ 265,959,000	$ 228,660,000
Bank of Canada	265,494,000	250,293,000	228,735,000
Exchange Fund Account	194,107,000	175,485,000	105,073,000
Farm Credit Corporation	71,969,000	66,967,000	59,988,000
Canadian National Railways	50,297,000	58,431,000	50,706,000
Deposits with chartered banks	46,009,000	25,155,000	51,016,000
Veterans' Land Act loans	23,726,000	21,968,000	18,956,000
Loans to national governments	23,404,000	24,272,000	24,742,000
The St. Lawrence Seaway Authority	22,162,000	12,856,000	10,327,000
Export Development Corporation	22,026,000	13,893,000	6,402,000
Municipal Development and Loan Act	14,175,000	14,585,000	14,627,000
Loans pursuant to the Atlantic Provinces Power Development Act, *R.S., c. A-17*	13,809,000	8,935,000	5,728,000
Canadian Broadcasting Corporation	8,423,000	7,435,000	6,068,000
Airports Revolving Fund	7,071,000	2,158,000	—
International Monetary Fund	5,224,000	3,179,000	203,000

	1971-72	1970-71	1969-70
National Capital Commission	$ 3,427,000	$ 3,369,000	$ 3,449,000
Northern Canada Power Commission	2,949,000	2,430,000	1,578,000
National Harbours Board	2,751,000	4,171,000	4,624,000
Loans to industry	2,390,000	2,483,000	1,689,000
Atomic Energy of Canada Limited	2,335,000	1,615,000	1,306,000
Canadian Dairy Commission	2,131,000	5,620,000	4,223,000
Canadian Overseas Telecommunication Corporation	2,109,000	2,277,000	2,458,000
Government of the Northwest Territories	2,106,000	1,369,000	1,020,000
Loans to the provinces— assistance in the creation of employment	2,082,000	—	—
Government of the Yukon Territory	1,748,000	1,341,000	892,000
Eldorado Nuclear Limited	1,635,000	563,000	63,000
Province of Quebec—Quebec's share *re* guarantee 1967 World Exhibition loan	1,519,000	2,559,000	3,298,000
Royal Canadian Mint	1,300,000	—	—
Northern Transportation Company Limited	1,159,000	1,026,000	529,000
Passport Office Revolving Fund	1,138,000	952,000	1,396,000
Special United States of America securities—Columbia River Treaty	1,024,000	2,392,000	3,834,000
Other loans and investments	12,701,000	16,415,000	18,442,000
	$ 1,133,231,000	$ 1,000,153,000	$ 860,032,000

Revenue from Central Mortgage and Housing Corporation for 1971-72 comprised $313,399,000 ($257,039,000 in 1970-71) interest on advances under the National Housing Act, *R.S., c. N-10*, and $7,432,000 ($8,920,000 in 1970-71) profit for the year ended December 31, 1971, which was transferred to the Receiver General as required by section 30 of the Central Mortgage and Housing Corporation Act, *R.S., c. C-16*.

The amount shown as revenue from the Bank of Canada represents the profit for 1971 which was paid to the Receiver General as required by section 23 of the Bank of Canada Act, *R.S., c. B-2*.

Revenue from the Exchange Fund Account comprised earnings of $191,964,000 on investments and net profit of $2,143,000 from trading operations in foreign exchange, gold and securities, paid into the Consolidated Revenue Fund in accordance with the requirements of section 16 of the Currency and Exchange Act, *R.S., c. C-39*.

Interest is earned on amounts exceeding an aggregate of $100 million on deposit with chartered banks. The interest is calculated weekly on the lowest daily balance within the week at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%.

Revenue from loans to national governments included receipts from the United Kingdom of $3,462,000 covering current interest on deferred principal and interest, and $16,892,000 covering current interest on the unmatured portion of the loan.

Revenue from The St. Lawrence Seaway Authority comprised $20,060,000 received on account of deferred interest and $2,102,000 on account of current interest.

Revenue from the Export Development Corporation in 1971-72 represented interest received on long-term loans made to the Corporation under section 13 of the Export Development Act, *R.S., c. E-18,* to enable it to make loans to foreign customers. In 1969-70 and prior years the revenue comprised interest received on individual loans to foreign customers. The change in financing arrangements resulted in interest, which under the previous arrangements would have been recorded in 1969-70, being carried over to 1970-71.

The revenue of $13.8 million from loans pursuant to the Atlantic Provinces Power Development Act, *R.S., c. A-17,* represents interest on loans made through Northern Canada Power Commission to the power commissions of Newfoundland, Nova Scotia and New Brunswick. The increase in revenue is mainly due to the payment of deferred interest of $3.5 million by the Province of Newfoundland which had no counterpart in previous years.

Revenue from the Airports Revolving Fund consists of interest on capital expenditures at Montreal and Toronto International Airports.

Revenue of $5,224,000 from the International Monetary Fund is Canada's share of the portion of the net income of the Fund for the year ended April 30, 1971, which was distributed pursuant to Article XII section 6(b) of its Articles of Agreement.

Revenue from the National Harbours Board comprised interest on loans for Belledune, Montreal, Trois-Rivières, Halifax and Vancouver Harbours and the Saint John Harbour Bridge Authority. The decrease in revenue is largely due to the deferment of interest payments on loans in respect of Vancouver Harbour.

Revenue from loans to industry consists mainly of interest on loans to manufacturers of automotive products in Canada affected by the Canada-United States Agreement on Automotive Products.

Revenue of $2,082,000 on loans to the provinces represents interest on loans made to the Provinces of Quebec and New Brunswick for the purpose of assisting in the creation of employment as authorized by Finance Vote L13c, Appropriation Act No. 1, 1971, *1970-71-72, c.25.*

The revenue of $1,519,000 from the Province of Quebec represents interest on notes held by Canada with respect to the Province's share of the deficit of the Canadian Corporation for the 1967 World Exhibition.

The revenue of $1,300,000 from the Royal Canadian Mint represents the profits remaining after $335,000 was transferred to a reserve for possible losses pursuant to section 21 of the Royal Canadian Mint Act, *R.S., c. R-8.*

The revenue from the Passport Office Revolving Fund is the operating surplus for the year.

50. *Net postal revenue.* The following table shows the gross postal revenue, disbursements therefrom, and the resulting net postal revenue for the year ended March 31, 1972, with comparable figures for the two previous years:

	1971-72	1970-71	1969-70
Gross postal revenue	$ 486,581,000	$ 418,179,000	$ 430,378,000
Less: Revenue from financial and miscellaneous services credited to Post Office Vote 1	26,984,000	25,502,000	23,393,000
	459,597,000	392,677,000	406,985,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of small post offices	50,511,000	49,342,000	46,340,000
Other	5,295,000	5,764,000	5,892,000
	55,806,000	*55,106,000*	*52,232,000*
Net postal revenue	$ 403,791,000	$ 337,571,000	$ 354,753,000

The amounts shown for "Other" disbursements comprise delivery charges on parcels mailed in Canada to foreign countries and transit charges on Canadian mail forwarded through foreign countries, compensation paid to messengers for special delivery of letters and parcels, losses by fire, theft, forgery, etc., and indemnities paid in respect of lost or damaged parcels and registered articles.

51. *Other non-tax revenue.* An analysis of the amounts shown for "Other non-tax revenue" for the past three years follows:

	1971-72	1970-71	1969-70
Services and service fees	$ 17,863,000	$ 17,065,000	$ 18,104,000
Proceeds from sales	15,677,000	14,016,000	16,366,000
Privileges, licences and permits	28,327,000	26,294,000	24,510,000
Refunds of previous years' expenditure	21,482,000	23,045,000	29,447,000
Bullion and coinage	23,550,000	19,946,000	19,940,000
Miscellaneous	20,719,000	19,094,000	35,574,000
	$ 127,618,000	$ 119,460,000	$ 143,941,000

Comments on Expenditure and Revenue Transactions

Reference has already been made to the statutory responsibility of the Auditor General, under section 61 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and to any other case that he considers should be brought to the notice of the House of Commons.

Pursuant to this direction, the following matters relating to the expenditure and revenue transactions examined during the year are brought to the attention of the House in this Report. Several matters of a similar nature relative to Crown corporations are also included. A number involve non-productive payments, the details of which are given at the request of the Public Accounts Committee. Some of these had their origin in prior years although in most cases payments were made in 1971-72.

52. *Weakening of parliamentary control.* In each of the past two years (paragraph 50 in 1971) we have drawn attention to amounts included in the Estimates which were not required to meet expenditure coming in course of payment during the year. Nevertheless, under the authority of special wording in the several vote texts in the Appropriation Acts, the amounts were recorded as expenditure of the year and credited to special accounts to be available for spending in future years. Last year, $65,551,000, which was not required during the year, was recorded as expenditure and formed part of certain balances totalling $291,693,000 at March 31, 1971, that were available without further reference to Parliament to meet obligations coming in course of payment subsequent to that date. We have pointed out that one of the most important controls exercised by Parliament over public expenditure is provided by section 20 of the Financial Administration Act which directs that:

> All estimates of expenditures submitted to Parliament shall be for the services coming in course of payment during the fiscal year.

We gave some of the background to this requirement showing that when it was first introduced in England in 1863, it was hailed as practically guaranteeing the control of public expenditure by Parliament.

In the past three years (paragraph 51 in 1971) we have drawn attention to the recording as expenditure of the amount in the Contingencies Vote which was not required to supplement other votes or for contingencies and the placing of this amount in a reserve from which payments were made in respect of retroactive salary increases relating to previous years. This had resulted in substantial amounts being retained for spending in future years. The practice has now been discontinued and

the balance of the 1971-72 Contingencies Vote lapsed in accordance with the provisions of section 30 of the Financial Administration Act.

The following amount in the appropriations for 1970-71 from which expenditures could be made in 1970-71 and 1971-72 was not required in either year but, without the authority of Parliament, was recorded as expenditure of 1971-72 and transferred to a special account:

$4,500,000 not having been expended from Secretary of State Vote 22a of 1970-71 was transferred during the year to a special account opened for the purpose—National Second Century Fund of British Columbia. (See paragraphs 204 and 309 of this Report.)

The following amounts were included in the appropriations for 1971-72 and, because of special wording in the vote texts in the Appropriation Acts, were recorded as expenditure and placed in special accounts where they remained available for spending in future years:

$8,644,000, being the amount by which the payments of $74,829,000 to the International Assistance Account of the Canadian International Development Agency, provided for by External Affairs Vote 20, exceeded the expenditures charged to the Account during the year;

$7,585,000, being the amount by which the payments to the Canadian Dairy Commission by the Agricultural Stabilization Board, provided for by Agriculture Vote 15, exceeded the expenditure of the Commission during the year;

$3,021,000, being the amount by which the payment of $20,000,000 to the Railway Grade Crossing Fund pursuant to Transport Vote 70 exceeded the expenditure charged to the Fund during the year;

$1,329,000, being the amount by which the payment of $1,354,000 to the National Harbours Board Special Account on March 21, 1972, for special employment projects pursuant to Transport Vote 80 exceeded the payments of $25,000 on these projects to March 31, 1972;

$1,065,000, being the amount by which the $2,400,000 provided by Secretary of State Vote 100 for the purchase of objects for the collections of the National Museums of Canada exceeded the net expenditure from the National Museums of Canada Purchase Account during the year;

$208,000, being the amount by which the payment of $481,500 to the Standards Council of Canada pursuant to Industry, Trade and Commerce Vote 40 exceeded the expenditure of the Council during the year;

$190,000, being the amount by which the payment of $496,000 to the National Library Purchase Account pursuant to Secretary of State Vote 95 exceeded the expenditure charged to the Account during the year;

$170,000, being the amount by which the payment of $2,956,000 to the National Arts Centre Corporation pursuant to Secretary of State Vote 75 exceeded the expenditure of the Corporation during the year;

$146,000, being the amount by which the payment of $1,900,000 to The Company of Young Canadians pursuant to Secretary of State Vote 70 exceeded the expenditure of the Company during the year; and

$62,000, being the amount by which the charge to Supply and Services Vote 20 to restore the Canadian Commercial Corporation reserve for contingencies to $225,000 exceeded the charge to the reserve during the year. (See paragraph 211 of this Report.)

Had these amounts, which were not required during the year, not been recorded as expenditure of the year the deficit for the year would have been $26,920,000 (4.4%) less.

Expenditures made during the year without further reference to Parliament from funds set aside in previous years because of special wording in the vote texts in the Appropriation Acts of those years include:

$61,575,000 charged to the reserve for salary revisions in respect of retroactive salary payments for 1970-71 and prior years;

$15,485,000 charged to the reserve for wheat inventory reduction payments in respect of wheat inventory reduction and grassland incentive payments;

$3,190,000 charged to the National Capital Fund, being the amount by which net expenditures of $36,690,000 exceeded the payment of $33,500,000 to the Fund pursuant to Urban Affairs and Housing Vote 20; and

$482,000 charged to the surplus account of the Canadian Broadcasting Corporation, being the amount by which the net cost of operations of the Corporation, $174,917,000, exclusive of depreciation and amortization of $11,331,000, and the amount required for the repayment of loans from Canada, $6,565,000, exceeded the payment to the Corporation pursuant to Secretary of State Vote 55, $181,000,000.

Had these amounts been included in the Appropriation Acts for the year the deficit for the year would have been $80,732,000 (13%) greater.

At March 31, 1972, funds available without further reference to Parliament to meet expenditures for services coming in course of payment subsequent to that date, which would normally be paid from future years' appropriations, together with comparable amounts at the end of the preceding year, included:

	March 31, 1972	March 31, 1971
International Assistance Account	$ 91,243,000	$ 82,599,000
Reserve for salary revisions	37,638,000	99,213,000
Reserve for wheat inventory reduction payments	26,927,000	42,412,000
Department of National Defence:		
Surplus Crown Assets Account	12,740,000	22,991,000
Replacement of Materiel Account	1,530,000	1,530,000
	14,270,000	*24,521,000*
National Capital Fund	13,753,000	16,943,000
Canadian Broadcasting Corporation	12,533,000	13,015,000
Canadian Dairy Commission	9,070,000	1,485,000
Railway Grade Crossing Fund	6,394,000	3,373,000
National Harbours Board— Special Account	1,443,000	452,000
National Museums of Canada— Purchase Account	1,244,000	179,000
The Company of Young Canadians	984,000	838,000
Centennial of Confederation Fund	793,000	801,000
National Arts Centre Corporation	737,000	567,000
Standards Council of Canada	342,000	—

	March 31, 1972	March 31, 1971
Canadian Commercial Corporation—Reserve for Contingencies	$ 225,000	$ 163,000
National Library of Canada— Purchase Account	191,000	1,000
	$ 217,787,000	$ 286,562,000

The Surplus Crown Assets Account and the Replacement of Materiel Account of the Department of National Defence provide for the diversion of revenue which may be spent by the Department in future years without further reference to Parliament. This weakens the control of public expenditure by Parliament.

We reiterate that one of the most important controls exercised by Parliament over public expenditure is its requirement that all estimates of expenditure submitted to it shall be for the services coming in course of payment during the fiscal year. This control is seriously weakened when funds are credited to special accounts to be available for spending in future years.

53. *Non-lapsing balances of votes available for spending in subsequent years.* In the preceding audit comment (paragraph 52) we have referred to amounts appropriated by Parliament which were recorded as expenditure of the year and credited to special accounts to be available for spending in future years. Other instances in which Parliament has been asked to appropriate funds which are not required for services coming in course of payment during the year include those cases where the vote wording provides for payments in the current and subsequent fiscal years.

Paragraph 13 of this Report gives a listing of amounts, in six appropriations, totalling $119,221,000 which did not lapse but may be disbursed in a subsequent fiscal year. These amounts are:

1. AGRICULTURE VOTE 15—$26,000,000. In 1970-71 Agriculture Vote 15 provided, under the heading of Farm Income Maintenance, an amount of $10,000,000 for agricultural adjustment payments in the current and subsequent fiscal years. No amount was spent from this appropriation. Notwithstanding this, Vote 15 in 1971-72 provided a further $16,000,000 for this purpose and once again, no amount was spent. Thus, Parliament over the past two years has provided authority to spend $26,000,000, none of which was required in those years.

2. EXTERNAL AFFAIRS VOTE 20—$22,833,000. This Vote included an amount of $85,000,000 for the International Food Aid Program in the current and subsequent fiscal years, which was additional to $5,556,000 already available for spending under the authority of Vote 20 of 1970-71. Also included under Vote 20a was $22,000,000 for International Emergency Relief in the 1971-72 and 1972-73 fiscal years. From these amounts, $89,723,000 was expended, leaving $22,833,000 available for spending in future years comprising $14,027,000 for the International Food Aid Program and $8,806,000 for International Emergency Relief. There is a further amount included in the 1972-73 Estimates for the International Food Aid Program and it is not clear why the annual Estimates could not have included only the amount expected to come in course of payment during the year.

3. INDIAN AFFAIRS AND NORTHERN DEVELOPMENT VOTE 30—$2,317,000. Since 1966-67, there has been an annual vote for Northern Mineral Development Assistance Grants including authority to spend in the current and subsequent fiscal years. In the Public Accounts for 1970-71 the balance of the appropriation was shown as having lapsed with no amount available for spending in future years. In the 1971-72 Public Accounts Volume I, page 9.6, an amount of $2,317,000 is shown as not lapsing and available for spending in future years. It is not clear why the annual appropriation could not have been the amount which it was anticipated would come in course of payment during the year, with any excess lapsing as contemplated by section 30 of the Financial Administration Act.

4. INDUSTRY, TRADE AND COMMERCE VOTE 29b—$68,000,000. This Vote provides for payments in 1972-73 to holders of 1971-72 Canadian Wheat Board permit books and to certain other producers of wheat in Canada. Inasmuch as the entire amount is for payment in 1972-73 it is not clear why the Vote was not included in either the Estimates or Supplementary Estimates for 1972-73 instead of in Supplementary Estimates for 1971-72.

5. SECRETARY OF STATE VOTE 2b—$71,000. This is a 1968-69 appropriation authorizing expenditure in the current and subsequent fiscal years not exceeding $4,729,000 to cover residual costs of construction of the National Arts Centre. Disbursements amounted to $2,117,000 in 1968-69, $2,188,000 in 1969-70, $206,000 in 1970-71 and $147,000 in 1971-72. When funds are made available in advance of requirement in this way, there would seem to be an implication that Parliament is satisfied to have construction continue until the funds are exhausted.

In our opinion the practice of appropriating funds to be spent in subsequent fiscal years as well as in the current year also serves to weaken Parliament's control over spending.

54. *Government Contingencies Program.* In previous Reports (paragraph 51 in 1971) we have referred to the annual Contingencies Vote provided to the Treasury Board to supplement other votes for paylist and other requirements and to provide for miscellaneous minor and unforeseen expenses. Authority is also provided to re-use any sums allotted from this Vote for non-paylist requirements and repaid from other appropriations. By having such a vote available, the Treasury Board Secretariat is able to instruct departments to provide in their estimates only for known requirements and not to include any cushion against unexpected obligations.

In recent years the annual provision had been substantial due to widespread salary increases in the government service. The following summary shows the annual provision in each of the past five years, the extent to which it has been used for transfers to other votes that were not recovered from supplementary appropriations, and the unused balance at the year-end:

		Transferred to other votes		Unused balance	
	Provided	Paylists	Miscellaneous	Lapsed	Transferred to reserve account
1967-68	$ 45,000,000	$ 22,830,000	$ 11,000,000	$ 11,170,000	$
1968-69	175,000,000	54,463,000	8,000		120,529,000

		Transferred to other votes		Unused balance	
	Provided	Paylists	Miscellaneous	Lapsed	Transferred to reserve account
1969-70	$100,000,000	$40,746,000	$ 598,000	$	$ 58,656,000
1970-71	80,000,000	14,956,000	6,000		65,038,000
1971-72	75,000,000	25,404,000	3,000	49,593,000	

Miscellaneous transfers in 1971-72 amounted to $68,590,000 of which all but $3,000 was recovered from supplementary appropriations which included the items for which the original transfers were requested.

Members of the Public Accounts Committee have expressed concern that large sums are placed in the hands of the Executive for the supplementing of appropriations of the various departments. In its Thirteenth Report 1966-67 the Committee stated that additional amounts required by each department should be made the subject of a supplementary estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner (see Appendix 1, item 25). Nevertheless the practice has continued.

In the years 1968-69, 1969-70 and 1970-71 the purposes of the Contingencies Vote were extended by establishing a reserve from the unused balance of the appropriation at each year-end from which payments were made in respect of salary increases relating to previous years for persons employed in the Public Service. This practice was discontinued in 1971-72, and the unused balance in the Contingencies Vote lapsed in accordance with the provisions of section 30 of the Financial Administration Act. A balance of $37,638,000 remains in the reserve and presumably will be used to pay retroactive salary increases applicable to prior years. Transactions in this reserve account since inception may be summarized as follows:

	Transferred from Contingencies Vote	Payments of salary increases relating to previous years	Balance at March 31
1968-69	$ 120,529,000	$ —	$ 120,529,000
1969-70	58,656,000	114,853,000	64,332,000
1970-71	65,038,000	30,157,000	99,213,000
1971-72	—	61,575,000	37,638,000

Since the year-end only $804,000 has been paid out of the reserve. We have asked the Treasury Board Secretariat what period of time they expect will elapse before the reserve is exhausted and what final disposition will be made of any amount that is not required. They have told us that they were unable to answer these questions.

During the year the Treasury Board approved an allotment of $3,700,000 from the Contingencies Vote for the purchase of shares of capital stock of Panarctic Oils Ltd. The authority was subsequently provided by Indian Affairs and Northern Development Vote L56a, Appropriation Act No. 4, 1971, *1970-71-72, c.58*, but Parliament was not informed that funds had already been made available from the Contingencies Vote and that the stock had been purchased. It seems doubtful that Parliament intended the Contingencies Vote to be used to initiate expenditure not within the ambit of existing votes, except in an emergency. The wording "to supplement other votes" suggests that it did not.

55. *Revised vote pattern.* In last year's Report (paragraph 52) we referred to the criteria recommended by the Public Accounts Committee in its First Report 1968-69, presented to the House on January 29, 1969, to be used in determining the votes required under the revised form of the Estimates introduced in 1970-71.

As was the case last year, there are a number of instances in the 1971-72 Estimates where the criteria were not followed. For example, there was not a separate vote for the Agricultural Stabilization Board. Similarly, there was not a separate vote for grants and contributions, which exceeded $5 million in the Indian and Eskimo Affairs Program of the Department of Indian Affairs and Northern Development. It was explained in the Foreword to the Estimates that this had been done to allow the Department of Indian Affairs and Northern Development flexibility in this Program to provide the required assistance in the most effective manner throughout the year. The Foreword also refers, apparently in error, to the Northern Development Program. The Estimates for 1972-73 indicate no change for these items.

The following comments are made with respect to other items in the Estimates for 1971-72:

1. In the appropriations which provide authority to spend revenue, the estimate of revenue continues to appear only in the Estimates details rather than in the Appropriation Act. The 1972-73 Estimates indicate no change. Thus, no recognition has been given to the view expressed in each of our Reports since 1966 (paragraph 53 in 1971) that to ensure parliamentary control over expenditure, where authority is provided for the spending of revenue, three figures—estimated gross expenditure, estimated revenue and net amount appropriated—should appear in the appropriation itself and the amount of revenue used to supplement the net amount appropriated should be limited to the estimated revenue shown in the appropriation. (See also paragraph 56 of this Report.)

2. In previous Reports we have mentioned that parliamentary control had been further weakened by showing the amount of some votes as a net amount after deducting, in the "Program by Activities", an amount representing the anticipated recovery of expenditure from the vote which had not been provided for in the vote. For example, Finance Vote 1 provides a net amount for the Financial and Economic Policies Program after deducting from the estimated expenditures an amount of $868,000. There is no explanation of this item and nowhere in the 1971-72 Estimates can Members of the House find the information that the Department of Finance is recovering the cost of administrative services provided to the Treasury Board. It has long been accepted that expenditure falling within the ambit of a vote, but not provided for in

the vote, which is later recovered may be credited to the vote. There must, however, be no supplementing of the vote and therefore such credits should be restricted to recoveries of clearly identifiable expenditures only. This is not the case in the example referred to and in our opinion such recoveries of costs should be regarded as revenue and credited to the vote only with the appropriate authority and with the amount controlled as suggested in 1. Recoveries of costs should also be credited to revenue in other cases where the "Program by Activities" of a department shows a deduction for, but does not show the nature of, receipts and revenue credited to the vote which are not clearly identified and adequately described. Although there was no change in the 1971-72 Estimates, more information appears in the 1972-73 Estimates.

3. As in the past few years words which represent an amendment to legislation appear only in the Details of the Estimates rather than in the text of several of the 1971-72 votes. The President of the Treasury Board advised the Chairman of the Public Accounts Committee on December 9, 1971, that in 1972-73 the vote titles would be expanded to include such legislative authorities.

4. Last year we noted that, where the initially estimated capital expenditure in a vote was below $5 million, a separate capital vote was not required to meet the criteria recommended by the Public Accounts Committee. A consequence in 1971-72 was that Parliament did not have the opportunity to control capital expenditure of $926,000 in National Health and Welfare Vote 20 when funds provided for operating purposes were used for capital purposes and the actual capital expenditure, which had been estimated at $4,628,000, was $5,554,000.

56. *Supplementing parliamentary appropriations.* In previous Reports (paragraph 53 in 1971) we have drawn attention to the weakening of parliamentary control over expenditure when appropriations containing provision for the spending of revenue received during the year may be supplemented in the event that the revenue received is in excess of the revenue estimated. We cited examples of appropriations which had been supplemented in this manner and reiterated our recommendation that the use of revenue be limited to the estimated amount.

No change was made in 1971-72 to those appropriations which authorized the spending of revenue and the wording in the Estimates for 1972-73 also indicates no change.

In 1971-72 there were 26 appropriations of 17 departments which authorized the spending of revenue. In 13 appropriations the revenue received exceeded the estimated revenue by a total of $31,481,000. In 10 of these appropriations the excess of actual revenue over estimated revenue exceeded $100,000 as follows:

	Estimated revenue	Actual revenue	Excess of actual revenue over estimated revenue: Used	Unused
Agriculture Vote 20	$ 1,858,000	$ 2,240,000	$ —	$ 382,000
Communications Vote 1	6,382,000	7,716,000	585,000	749,000
National Defence Vote 5	116,046,000	132,034,000	12,834,000	3,154,000
National Health and Welfare Vote 20	8,229,000	11,127,000	1,858,000	1,040,000
Solicitor General Vote 20—Royal Canadian Mounted Police	45,679,000	49,202,000	1,192,000	2,331,000

	Estimated revenue	Actual revenue	Excess of actual revenue over estimated revenue: Used	Excess of actual revenue over estimated revenue: Unused
Transport				
Vote 1	$ 490,000	$ 843,000	$ 29,000	$ 324,000
Vote 5	11,281,000	12,336,000	817,000	238,000
Vote 25	31,289,000	33,897,000	—	2,608,000
Treasury Board Vote 15—National Research Council of Canada	9,087,000	9,641,000	—	554,000
Veterans Affairs Vote 35	27,632,000	30,311,000	607,000	2,072,000
	$ 257,973,000	$ 289,347,000	$ 17,922,000	$ 13,452,000

Treasury Board Circular No. 1969—94 of July 14, 1969, directs that where authority has been provided in a particular vote to spend revenue and where receipts are more than 125% of the amount forecast in the Estimates, the excess is to be credited to a separate allotment which may be spent only with Treasury Board approval. Thus the Treasury Board has retained for itself control over that portion of the excess which exceeds 25% of the revenue originally estimated.

Under this directive the entire $31,481,000 excess of actual revenue over estimated revenue received in 1971-72 was available for spending at the Departments' discretion with the exception of the following amounts aggregating $1,071,000 which could be spent only with Treasury Board approval:

National Health and Welfare Vote 20	$ 841,000
Transport Vote 1	230,000
	$ 1,071,000

We reiterate our view that to ensure parliamentary control over expenditure, where authority is provided for the spending of revenue, three figures—estimated gross expenditure, estimated revenue and net amount appropriated—should appear in the appropriation itself and the amount of revenue used to supplement the net amount appropriated should be limited to the estimated revenue shown in the appropriation.

57. *Unpaid accounts carried forward to new fiscal year.* A summary of accounts properly chargeable to 1971-72 which were not paid in that year appears on pages 11.22 to 11.24 of Volume I of the Public Accounts. The amounts shown in the summary are divided into six categories, the totals of which compare with the previous year's totals as follows:

	March 31, 1972	March 31, 1971
Invoices received on or before April 30:		
Interdepartmental—		
Insufficient funds	$ 1,368,000	$ —
Other reasons	112,000	742,000
	1,480,000	*742,000*
Other—		
Insufficient funds	14,406,000	12,235,000
Other reasons	10,187,000	13,232,000
	24,593,000	*25,467,000*
Invoices received after April 30:		
Interdepartmental	710,000	141,000
Other	18,641,000	18,776,000
	19,351,000	*18,917,000*
	$ 45,424,000	$ 45,126,000

Although accounts received by April 30 which remained unpaid for reasons other than insufficient funds are shown as amounting to $10,299,000, the funds actually available for payment of these accounts amounted to only $9,109,000. No explanation is given in the summary for the non-payment of the accounts to this extent.

Not included in the summary are additional accounts totalling $818,000 chargeable to Department of National Defence appropriations which were received very late. These accounts could not have been paid in any event as sufficient funds were not available in the votes.

Of the accounts totalling $19,351,000 received after April 30, $11,495,000 could not have been paid in any event as sufficient funds were not available in the votes.

The relationship of these unpaid accounts, including the $818,000 which was not reported in the Public Accounts ($2,700,000 in 1970-71), to the availability of funds may be seen from the following table which also shows the comparable amounts for the previous year:

	March 31, 1972	March 31, 1971
Failure to pay although funds were available	$ 9,109,000	$ 13,989,000
Failure to get accounts in on time	7,856,000	9,011,000
Failure to seek supplementary appropriations	16,964,000	14,920,000
Failure to get accounts in on time and to seek supplementary appropriations	12,313,000	9,906,000
	$ 46,242,000	$ 47,826,000

It will be noted that the unpaid accounts decreased by $1,584,000 from those unpaid at the end of the previous year. Therefore the expenditure applicable to

1971-72 was actually $1,584,000 less than was recorded. However, the 1971-72 appropriations were intended to cover accounts coming in course of payment during the year and technically 28 appropriations were overspent by $29,277,000.

In previous Reports (paragraph 54 in 1971) we have referred to the provisions of section 25 of the Financial Administration Act which imposes on deputy heads or other persons charged with the administration of a service the responsibility for operating commitment control records for each parliamentary appropriation in such a way that they are in a position at any time to determine the balance remaining in an appropriation that is available for further commitment. We pointed out that Parliament has modified the requirements of section 25 by including in the annual appropriations of certain departments authority to enter into commitments that will come in course of payment only in future years. Should these commitments come due for payment earlier than anticipated there may not be sufficient funds in the vote to enable payment to be made. Similarly, in the case of annual appropriations providing for claims under programs where the amount has been underestimated, there is no alternative but to withhold payment until a further parliamentary appropriation is available. Payments withheld in this manner are usually charged against the corresponding appropriation in the new year, which often results in that appropriation being insufficient to take care of all the accounts coming in course of payment for which it had originally been provided.

We reiterate our view that the present procedures whereby appropriations are not reported as having been overexpended, through the technique of withholding payment of amounts owing by the Crown until a further appropriation becomes available, are misleading and should be reviewed. Consideration should also be given to the procedures followed in presenting supplementary estimates to Parliament. Appropriation Act No. 1, 1972, *1972, c.1,* covering the 1971-72 final Supplementary Estimates, was assented to on March 29, 1972. A study should be made of the reasons why much of the $29 million of accounts unpaid due to insufficient funds at March 31, 1972, was not provided for in these Supplementary Estimates.

A study should also be made of the reasons for the discrepancies between accounts payable by departments and the corresponding accounts receivable of departments providing them with services. Interdepartmental accounts payable at the year-end have been reported as $1,480,000 owing in respect of invoices received on or before April 30 and $710,000 owing in respect of invoices received after April 30. These amounts are substantially less than the receivables of approximately $3 million recorded by departments as due from other departments at March 31, 1972, and receivables of over $8 million which form part of working capital advances of creditor departments at that date, all of which are actually undistributed expenses of government departments and agencies. (See also paragraphs 257 and 269 of this Report.)

58. *Loans and advances representing grants.* Reference has been made in previous Reports (paragraphs 55 and 239 in 1971) to certain loans to Crown corporations and

others where payments of interest and instalments on principal were dependent on further appropriations of Parliament.

The Public Accounts Committee has considered the practice from time to time since 1963 and holds the view that outlays on properties, such as those held by the National Capital Commission in the Greenbelt, are expenditures of the Crown rather than income-producing investments (see Appendix 1, item 5). In its Seventh Report 1966-67 the Public Accounts Committee stated that it was disturbed to learn that the practice had been further extended in 1965 when the House was asked to approve loans to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure. The Committee reiterated its opinion that "expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada" (see Appendix 1, item 17). On May 6, 1971, the Public Accounts Committee discussed this question with the Auditor General and the Deputy Minister of Finance but has not made any further recommendation to the House.

The practice of recording these expenditures as loans instead of grants has the effect of understating the deficit for the year as recorded in the Public Accounts. To the extent that appropriations are provided in later years for repayment of the loans, the surplus will decrease or the deficit increase in those years. Similar practices involving five departments where expenditures have been recorded as loans to revolving funds are referred to in paragraph 61 of this Report.

The following additional loans of this type were made during 1971-72:

Canadian Broadcasting Corporation	$ 33,000,000
Government of the Northwest Territories	17,281,000
Government of the Yukon Territory	4,290,000
	$ 54,571,000

Had these amounts been recorded as grants in accordance with the policy outlined in paragraph 256 of this Report, the deficit for the year would have been $54,571,000 greater.

Repayments during the year on loans of this type made in previous years were as follows:

Canadian Broadcasting Corporation	$ 6,600,000
National Capital Commission— Greenbelt	250,000
Government of the Northwest Territories	1,303,000
Government of the Yukon Territory	992,000
	$ 9,145,000

These repayments, with the exception of $250,000 derived from the sale of property by the National Capital Commission, were provided for in 1971-72 appropriations of Parliament. Had the loans been recorded as grants when originally made, these appropriations to enable repayment of principal would not have been required and the deficit for 1971-72 would therefore have been $8,895,000 less.

Certain of these loans call for payment of interest at varying rates and the following interest income was recorded during 1971-72 with respect to them:

Canadian Broadcasting Corporation	$ 8,423,000
National Capital Commission	3,427,000
Government of the Northwest Territories	2,037,000
Government of the Yukon Territory	1,407,000
	$ 15,294,000

Of this total, $1,208,000 was derived by the National Capital Commission from property rentals, interest from bank deposits and other income, and $14,086,000 was provided from 1971-72 appropriations of Parliament. While this provision had no effect on the recorded deficit for the year, as it was offset by the recording of an equivalent amount of income, both the expenditure and revenue of the year are greater by $14,086,000 than would have been the case had the funds advanced in previous years been recorded as grants rather than loans requiring payment of interest.

59. *Revenue retained in revolving funds.* When the Financial Administration Act was amended with effect from April 1, 1969, the then Part V of the Act dealing with public stores was repealed. Included in this Part was section 58 which dealt with the operations of revolving funds. One of its requirements was that any surplus at the end of a fiscal year be transferred from the revolving fund as revenue and that any deficit should be reimbursed to the fund from a parliamentary appropriation provided for that purpose.

Subsequently, the Treasury Board promulgated regulations covering the operations of revolving funds and working capital advances, item 26 of which reads as follows:

> 26. Any surplus arising from the operations of a fiscal year is to be transferred to "Return on Investments".... unless special permission by Treasury Board has been granted to accumulate surpluses or carry over deficits.

The Treasury Board has granted special permission for the accumulation of surpluses in three revolving funds to the equivalent of the two best years' surpluses achieved during the previous five years. The revolving funds concerned and the accumulated surpluses at March 31, 1972 were:

Canadian Government Printing Bureau Revolving Fund	$ 1,862,300
Canadian Government Supply Service Revolving Fund	1,278,600
Central Microfilm Unit Revolving Fund	16,200

In each case the amount was not a true surplus because the Fund had not been charged with all costs pertaining to some of the years in which the surpluses were accumulated.

When authorizing the operations of these Revolving Funds, Parliament provided a limit beyond which each Fund could not expand. In each case the limit is considerably in excess of the amount that has so far been required. The authorized amount for each Fund and the amount of the Fund at March 31, 1972, were as follows:

	Amount authorized	Amount advanced at March 31, 1972
Canadian Government Printing Bureau Revolving Fund	$ 8,000,000	$ 1,762,900
Canadian Government Supply Service Revolving Fund	20,000,000	2,340,300
Central Microfilm Unit Revolving Fund	80,000	33,900

The amounts advanced at March 31, 1972, would have been greater by the amount of the accumulated surplus in each Revolving Fund had the Treasury Board not authorized its retention.

The Treasury Board has also granted permission for the Airports Revolving Fund of the Department of Transport to accumulate all surpluses for the purpose of acquiring capital assets. The amount accumulated at March 31, 1972, was $35,398,700.

In our opinion, the retention of surpluses in revolving funds leads to a weakening of parliamentary control because:

1. Accumulated surpluses in a revolving fund provide a cushion against which losses may be offset, thereby depriving Parliament of an opportunity to inquire into the reasons for the losses.
2. Surpluses are not accounted for as revenue of Canada in the year in which they are realized.
3. The revenue retained in a revolving fund serves to supplement the maximum amount which Parliament has indicated the fund may use.

We would recommend that surpluses in revolving funds be transferred annually from those funds as revenue of Canada and that deficits be reimbursed to those funds from appropriations provided by Parliament for that purpose.

60. *Capital assets acquired through departmental working capital accounts.* In previous Reports (paragraph 56 in 1971) we have noted that capital assets were being acquired through departmental working capital accounts, thereby removing expenditure on such assets from parliamentary control. This practice was continued in 1971-72.

Prior to 1965-66 funds for the acquisition of all capital assets by government departments were provided through appropriation of funds by Parliament. In that year a change took place pursuant to an opinion expressed in 1964 by the Deputy Attorney General that the term "material" referred to in section 37 of the Public

Printing and Stationery Act, *R.S. 1952, c.226*, which provided for advances to enable the Queen's Printer "to purchase material for the execution of orders" was sufficiently broad to include capital equipment. This was followed by a Management Improvement Policy Circular on "Working capital advances" issued by the Treasury Board in April 1966 which encouraged a broader use of revolving funds or working capital advances. As these developments occurred, we pointed out in our Report each year that Parliament was being deprived of control over expenditure on assets purchased in this way.

Following the repeal, effective April 1, 1969, of the sections of the Financial Administration Act which set out the general principles governing the operation of revolving funds for stores purposes, the Treasury Board issued regulations covering the establishment and operation of revolving funds and working capital advances with effect from April 1, 1970. These regulations provide for the financing of capital assets either from replacement funds, accumulated by annual charges to operations designed to amortize existing capital assets over their useful life, or from a separate repayable loan vote to be included in the Estimates. The regulations were designed to restore parliamentary control over the expansion of capital facilities and to limit the resources available for the purchase of replacement facilities to those accumulated by amortizing existing facilities. However, should replacement of any facilities not be required, replacement funds available with respect to them will be available for the acquisition of other assets which might be used for a new activity without reference to Parliament.

The cost of capital assets acquired through working capital accounts, exclusive of those financed through loan appropriations which are referred to in paragraph 61 of this Report, and the replacement funds available at March 31, 1972, for the acquisition of capital assets in future years without reference to Parliament, are as follows:

	Capital assets acquired		
	1971-72	Cumulative to March 31, 1972	Replacement funds available at March 31, 1972
Airports Revolving Fund	$ 12,806,000	$ 50,432,000	$ —
Bureau of Staff Development and Training Revolving Fund	96,000	96,000	—
Canadian Government Photo Centre Revolving Fund	24,000	279,000	—
Canadian Government Printing Bureau Revolving Fund	612,000	3,412,000	13,000
Canadian Government Supply Service Revolving Fund	4,000	9,000	—
Central Microfilm Unit Revolving Fund	8,000	14,000	31,000
Computer Services Bureau Revolving Fund	36,000	151,000	30,000
Information Canada— Expositions Revolving Fund	—	—	49,000
Government Telephone Account	1,000	1,000	7,000
Passport Office Revolving Fund	51,000	253,000	6,000
Race Track Supervision Revolving Fund	33,000	58,000	—
	$ 13,671,000	$ 54,705,000	$ 136,000

The acquisition of capital assets from the funds of an operating account removes the expenditure on such assets from parliamentary control.

The objective of recovering the cost of equipment over its useful life through charges for services rendered or goods supplied is a most desirable one. However, to achieve this by financing the cost of the equipment from replacement funds in operating accounts is, in our opinion, undesirable from the important standpoint of parliamentary control. The objective could be achieved without affecting parliamentary control if proper financial statements were produced and the Estimates were prepared in such a way that departments being serviced would continue to be provided with sufficient funds to pay the total cost of the services, with the servicing organization being required to surrender as revenue of Canada the equivalent of normal depreciation on the capital assets employed. In our opinion funds for the acquisition of capital assets should be provided by means of capital expenditure appropriations based on a capital budget.

61. *Capital assets financed by loan appropriations.* In paragraph 57 of last year's Report, we pointed out that while Parliament does retain control over expansion of capital facilities when it must approve a loan appropriation with which this expansion is to be carried out, the financing of capital assets in this way violates the long-standing government accounting policy under which the cost of capital works is charged to expenditure at the time of acquisition or construction. This policy is set out in the introductory pages of Volume I of the Public Accounts each year and the pertinent portion is reproduced in paragraph 256 of this Report.

The expenditures on capital works financed by loan appropriations during the year, the balances of the loans outstanding at March 31, 1972 which represent capital assets improperly recorded on the Statement of Assets and Liabilities, and the unused portions of loans authorized up to March 31, 1972, which are available for the acquisition of capital assets in future years without further reference to Parliament, are as follows:

	Expenditures 1971-72	Outstanding loans March 31, 1972	Loan funds available March 31, 1972
Airports Revolving Fund	$ 90,475,000	$ 136,806,000	$ 76,125,000
Canadian Government Photo Centre Revolving Fund	2,000	2,000	—
Computer Services Bureau Revolving Fund	—	119,000	—
Passport Office Revolving Fund	79,000	78,000	—
Race Track Supervision Revolving Fund	13,000	13,000	—
Vancouver International Airport— Construction of bridges	2,594,000	6,798,000	10,327,000
	$ 93,163,000	$ 143,816,000	$ 86,452,000

The expenditures of $93,163,000 on capital works during the year are in addition to the expenditures on capital assets for departmental working capital accounts which are referred to in paragraph 60 of this Report.

The use of the loan vote procedure creates an anomalous situation where loans are being made by Canada to Canada which obviously cannot properly be included among the assets of Canada in the Statement of Assets and Liabilities. If expenditures on capital works are to be included among the assets of Canada, they must surely be described properly as capital assets. Furthermore, the value of all other capital works of Canada would have to be included in the Statement, all of which would require a substantial change in the underlying accounting policy.

We reiterate that funds for the acquisition of capital assets should be provided by means of capital expenditure appropriations based on a capital budget.

62. *Grants paid prior to parliamentary approval.* No accounting is made to the House of Commons of the ultimate application of moneys paid as grants in aid. For this reason, the prior sanction of Parliament has always been a requisite for the making of such payments. This is the opinion of the Public Accounts Committee of the United Kingdom, as is illustrated by the case of a British vote which included a provision for the making of a grant in aid as well as other outlays but did not fix a precise amount for the grant in aid. The Committee took exception:

> We are strongly of opinion that in all future cases where Parliament is asked to vote money as a grant in aid the exact amount of the grant should be specified in the Estimates so that Parliament may be aware of the precise sum which it is proposed to exempt from the ordinary conditions which govern accounting for voted money.

That the Treasury Board still considers this to be the proper procedure is evidenced by the fact that, as recently as October 1971, in granting authority for a department to include an item for a grant in supplementary estimates, it did so

> on the understanding that the grant can be made only after it has been authorized by Parliament through the Supplementary Estimates.

Notwithstanding this, the Treasury Board has deviated from this long-standing policy by permitting payment of grants in aid without the prior approval of Parliament since 1967-68. Last year (paragraph 58) we reported six grants totalling $538,000, which had been paid without the prior approval of Parliament, five of these from Treasury Board Vote 5—Government Contingencies.

During the year the Treasury Board continued to follow this practice and 12 grants totalling $1,498,350 were made without the prior approval of Parliament. With the exception of $40,000 paid from Indian Affairs and Northern Development Vote 5, these grants were paid from Treasury Board Vote 5—Government Contingencies and parliamentary approval of the payments was later sought in Supplementary Estimates (A) which were covered by Appropriation Act No. 4, 1971, *1970-71-72, c.58,* assented to on December 15, 1971. It was stated in the supplementary information given in the Estimates that funds had been allotted or allocated

from the Contingencies Vote. We had been given to understand that this wording was intended to inform the House of Commons that the grant had already been paid and that the authority was being sought *ex post facto*. Last year, we pointed out to the Treasury Board Secretariat that the words "allotted" or "allocated" do not normally mean "paid" and that in our opinion the Estimates item should have stated clearly to the House that the grant had already been paid from the Contingencies Vote. The Secretariat advised us that they are reconsidering this wording. However, in the 1971-72 Supplementary Estimates (A) the wording also appears with respect to some grants that had not previously been paid. The wording is thus meaningless with respect to informing the House of Commons when the grant has been paid without prior approval of Parliament.

The following is a list of the 1971-72 grants which received *ex post facto* approval of Parliament:

Date of payment	Beneficiary and appropriation charged	Amount
May 6, 1971	Canadian Association of Chiefs of Police (Solicitor General Vote 20a)	$ 24,000
May 12, 1971	Canada Committee for promoting Canada Week 1971 (Secretary of State Vote 40a)	56,100
May 12 and July 15, 1971	Army Cadet League of Canada (National Defence Vote 1a)	60,000
June 11, 1971	United Nations Association in Canada (External Affairs Vote 10a)	2,500
June 22, 1971	American Society of Mammalogists (Environment Vote 20a)	2,500
August 20, 1971	Manitoba Indian Brotherhood (Indian Affairs and Northern Development Vote 5)	40,000
September 1, 1971	St. Jean-Vianney Disaster Fund (Finance Vote 16a)	1,250,000
September 20, 1971	Canadian Planning Committee for the 1972 General Assembly of the International Union for Conservation of Nature and Natural Resources (Indian Affairs and Northern Development Vote 60a)	25,000
October 7 and 28, 1971	Association of Canadian Law Teachers (Justice Vote 1a)	4,000
October 26, 1971	University of Western Ontario (Indian Affairs and Northern Development Vote 60a)	2,000
October 28 and November 18, 1971	Canadian gift to the John F. Kennedy Centre for the Performing Arts (External Affairs Vote 10a)	26,250
November 1, 1971	University of Calgary (Indian Affairs and Northern Development Vote 60a)	6,000
		$ 1,498,350

63. *Auditor General's reports on the accounts and financial statements of Crown corporations*. Section 77 of the Financial Administration Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation (see paragraph 321 of this Report). Section 77 also requires that the report of the auditor be included in the annual report of the corporation and section 75 directs that such annual report be submitted to the appropriate Minister within three months after

the termination of each financial year, and that it be laid before Parliament by the Minister within fifteen days after he receives it from the corporation.

When Crown corporation reports are laid before Parliament, the practice is to refer to them in the daily Votes and Proceedings of the House of Commons under the heading "Returns and reports deposited with the Clerk of the House". In the past, the reference has included, in the case of corporations audited by the Auditor General, the words "together with the accounts and financial statements certified by the Auditor General....".

When the report of the Northern Canada Power Commission for the year ended March 31, 1971, was laid before the House on October 8, 1971, an error was made in the Votes and Proceedings in that the words "certified by the Auditor General" were retained in the reference although in fact the Auditor General had reported that he was unable to express an opinion on the correctness of the Commission's accounts and financial statements for that period. (See paragraph 156 of our 1971 Report.)

The unfortunate error was subsequently brought to the attention of the House by a Member and a result of this error appears to be that since March 1972 the words "certified by the Auditor General" have been omitted in the case of all Crown corporations audited by the Auditor General, although the words "certified by the auditors" appear to have been retained in the case of corporations audited by other auditors. This means that the attention of the Members of Parliament is not drawn to the serious situation existing when the Auditor General cannot express an opinion on the financial statements of a Crown corporation, such as those of the National Harbours Board for the year ended December 31, 1971. Members will find this out only when they read the Auditor General's report on the audit of the accounts of the corporation. (See paragraph 154 of this Report.)

We would recommend that, at the time the report of a Crown corporation is laid before Parliament, it be clearly stated whether or not the auditor has expressed an opinion on the accounts and financial statements.

64. *Inadequate charges for services provided.* Government policy based on a recommendation of the Royal Commission on Government Organization is that

> it should be departmental policy wherever economically and administratively feasible to charge for all goods supplied or services rendered to the public, including those now supplied free, unless there are provisions for specific exemption.

Since its adoption several years ago, many of the charges for services provided to the public have been adjusted in accordance with this policy.

Last year (paragraph 59) we noted that the Government had ended its voluntary price restraints and that the Treasury Board had advised departments that it was prepared to consider submissions requesting authority to initiate increases or to initiate new fees in cases where the reasons were particularly good. Departments and

agencies were asked not to initiate new fees or increases in fees without specific approval.

Services for which fees charged during the past two years were insufficient to cover costs include the following:

	1971-72 Costs	1971-72 Revenue	1971-72 Deficit	Deficit 1970-71
Post Office services (see paragraph 176 of this Report)	$ 480,041,000	$ 388,531,000	$ 91,510,000	$ 95,981,000
Canadian Farm Management Data System (CANFARM)	3,520,000	111,000	3,409,000	1,951,000
Livestock—Record of Performance	2,784,000	349,000	2,435,000	1,754,000
Steamship inspections	2,738,000	466,000	2,272,000	1,788,000
Weights and measures inspections	2,360,000	992,000	1,368,000	1,088,000
Seed testing and inspections, and field crop inspections	1,607,000	376,000	1,231,000	675,000
Inspections of grain	5,509,000	4,281,000	1,228,000	663,000
Electricity and gas meter inspections	2,116,000	1,268,000	848,000	666,000
Weighing of grain	2,958,000	2,219,000	739,000	510,000
Meat inspection services— overtime	2,120,000	1,395,000	725,000	543,000
Prosthetic services	2,068,000	1,358,000	710,000	527,000
Personnel dosimetry services	247,000	94,000	153,000	135,000
Supervision of pension plans	116,000	17,000	99,000	69,000
Cargo cranes— Vancouver Harbour	129,000	53,000	76,000	107,000

The costs shown do not in every case include all costs of providing the services.

65. *Federal land and other assets occupied and used by the Province of Quebec in the Montreal-Longueuil area.* In previous Reports (paragraph 60 in 1971) we have referred to financial and legal problems encountered by Canada in respect of various federal lands and other assets occupied by the Province of Quebec in the Montreal-Longueuil area. The National Harbours Board and The St. Lawrence Seaway Authority are the two federal agencies most directly concerned. We noted that their outstanding problems were in the hands of the Federal-Provincial Relations Secretariat of the Privy Council Office.

A proposed course of action to be taken in negotiations with the Province is now being developed by the Secretariat.

66. *Interdepartmental settlements.* In previous Reports (paragraph 61 in 1971) we have suggested that consideration should be given to the use of a special non-negotiable document for effecting interdepartmental settlements because instructions requiring the use of journal vouchers for this purpose, instead of cheques, had never been completely effective. With the increase in interdepartmental settlements under program budgeting, the journal voucher method of settlement was being used less than before.

The matter was considered by the Public Accounts Committee on October 21 and November 16, 1971, and the Committee was informed by the Deputy Minister of Services on November 16 that:

> I agree with the Auditor General's comments that cheques should not be used to settle interdepartmental payments and I would welcome a recommendation from your Committee that Treasury Board and the Department of Supply and Services study this matter.

Although no recommendation was made by the Committee, a study has been carried out by officers of the Department of Supply and Services. However, no recommendations have yet been made to the Treasury Board.

As was the case last year, the Canadian International Development Agency refused to use journal vouchers at the year-end to settle claims of other departments that were chargeable to the International Assistance Account and journal vouchers received from the creditor departments were returned. Cheques in payment of the claims were then drawn after the year-end cut-off date of April 30 for the International Assistance Account and were recorded as 1972-73 transactions. However, as the cut-off date for the recording of credits to the 1971-72 expenditure and revenue accounts was June 6, 1972, five creditor departments recorded these cheques totalling $195,000 as 1971-72 transactions. The effect of this was that the balance at the credit of the International Assistance Account as shown in the schedule to the Statement of Assets and Liabilities of Canada at March 31, 1972, included $195,000 which had been used to reduce the 1971-72 expenditures of the five departments and which, therefore, was also included in the item "Other current assets" in the Statement of Assets and Liabilities. While there is no suggestion of any improper intent in this instance, such bookkeeping violates accepted accounting principles and would not be tolerated in the private sector.

67. *Revenue improperly classified.* The revenue classification "Return on investments" is described on page 3.7 of Volume I of the Public Accounts as income derived from loans and advances made by the Government and from investments by the Government in productive or earning assets.

Treasury Board regulations of January 8, 1970, covering the operation of revolving funds and working capital advances state that:

> Any surplus arising from the operations of a fiscal year is to be transferred to "Return on Investments"...

Last year (paragraph 62) we expressed the opinion that the surpluses transferred from certain revolving funds which were classified as "Return on investments" should have been classified as "Other non-tax revenue". We noted that in the case of the Passport Office Revolving Fund, for which a "return on investment" of $952,000 had been recorded, there was in fact no amount advanced to the Fund at March 31, 1971, as deposits for passports not yet issued, together with the unpaid accounts of the Fund at that date, exceeded the book value of the inventories and capital assets. We also noted that the Agriculture Revolving Fund actually operated at a loss but accumulated a cash surplus because certain operating costs were charged to parliamentary appropriations.

The Passport Office Revolving Fund was set up to permit the expenses incurred in issuing passports to be paid from the fees charged, which prior to 1969-70 had been recorded as "Privileges, licences and permits", rather than from parliamentary appropriations. There is no relationship between the fees charged and the cost of issuing passports, nor is there any rational relationship between a "return on investment" of $1,138,000 and the book value of the "investment" of $292,000. This "investment" is represented by interest-bearing advances of $78,000 for the acquisition of capital assets, and capital assets of $214,000 which have been written off to expenditure through parliamentary appropriations or operating surplus. There was in fact no working capital advanced to the Fund at March 31, 1972.

As is shown in paragraph 370 of this Report, the Agriculture Revolving Fund operated at a loss of $392,000 but accumulated a cash surplus of $253,000 because certain costs of the Revolving Fund operation were charged to appropriations of the Department of Agriculture or other government departments which provided certain major services to the Fund without charge. The cash surplus of the Fund is recorded in the Public Accounts under "Return on investments" as "Net profit on the operations of the agriculture working capital advance account for the fiscal year 1971-72".

The Race Track Supervision Revolving Fund recorded a surplus of $93,000 which was transferred to "Return on investments". The "investment" is represented by interest-bearing advances of $13,000 for the acquisition of capital assets, and capital assets of $51,000 which have been written off to expenditure through parliamentary appropriations. There was in fact no working capital advanced to the Fund at March 31, 1972.

We remain of the opinion that these surpluses should not be classified as "Return on investments" and the Treasury Board regulations covering the operation of revolving funds and working capital advances which require these amounts to be so classified should be amended accordingly.

68. *Statement of Expenditure and Revenue.* The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1972, shows expenditure of $14,841 million and revenue of $14,227 million, resulting in a budgetary deficit of $614 million.

As is pointed out in paragraph 56 of this Report, 17 departments have authority to spend revenue received with respect to certain appropriations. The accounting procedure is to credit the revenue directly to the appropriation as it is received and, for statement purposes, to offset it against expenditure from the appropriation and record the net expenditure. Similarly the Department of National Defence has authority to credit the net proceeds from sales of property and equipment to its Surplus Crown Assets Account and its Replacement of Materiel Account from which they may be expended for the purposes of the Department.

During the year non-tax revenues totalling $258 million were credited to appropriations and, under authority of the Post Office Act, *R.S., c. P-14*, remuneration of postmasters and staffs at certain classes of post offices, and other costs, totalling $56 million, were paid from gross postal revenue. Proceeds from sales of surplus property and equipment of $14 million were credited by the Department of National Defence to its Surplus Crown Assets Account, and defence expenditures of $24 million were made from this Account. Thus the totals shown on the Statement of Expenditure and Revenue for the year ended March 31, 1972, are not complete, and $338 million must be added to expenditure and $328 million to revenue to obtain the complete expenditure and revenue figures for the year which are $15,179 million and $14,555 million respectively. Because of the excess of expenditures over receipts recorded in the special accounts of the Department of National Defence, the budgetary deficit of $614 million must be increased by $10 million.

69. *Wheat inventory reduction and grassland incentive payments.* The aim of the wheat inventory reduction program, which was administered by the Department of Agriculture, was to take out of production up to 22 million acres of land in order to reduce the stock of surplus wheat. Under this program, farmers were eligible for a payment of $6 for each acre of cultivated land taken out of wheat in 1970 and summer-fallowed or planted to perennial forage. A further $4 per acre was payable with respect to land seeded to forage in 1970 and still in forage on July 15, 1971. Interim payments of $3 per acre were made on receipt of the applications and the balance of $3 per acre was paid following verification of the applications by reference to field inspection reports and aerial photographs. This method of payment resulted in some payments being in excess of the amount eventually determined as owing to the farmer, and at March 31, 1972, overpayments totalling $365,000 remained uncollected. This amount had been reduced to $288,000 by December 1, 1972.

In our 1971 Report (paragraph 64) we pointed out that the farmers concerned had not been informed of the overpayments until September 1971 when letters were sent out requesting repayment. Despite assurance during last year's audit that effective administration and collection procedures were being developed, the Department in the majority of cases has not made any further request for reimbursement.

As an extension of the wheat inventory reduction program, the grassland incentive program was undertaken by the Department in 1971-72. The aim of this program, in addition to a further reduction of the acreage used for grain production, was to increase forage production for livestock by some four million acres. The program is to continue until this goal is reached or to December 31, 1973, whichever comes first.

Under the regulations, a producer was entitled to be paid $5 for each acre seeded to grass in 1971 that in 1970 was in summer-fallow or in any crop other than grass and that represented an increase in his grass acreage in 1971 over 1970. This

payment was made after the application and affidavit had been checked by the Prairie Farm Assistance Act Administration. The producer was also eligible for an additional $5 per acre after inspectors verified that the land was still in grass on July 15, 1972.

Interim field inspections with respect to the larger claims revealed a number of overpayments of which $35,000 had not been recovered up to December 1972.

Payments totalled $15.4 million in 1971-72 comprising $5.6 million paid under the wheat inventory reduction program and $9.8 million under the grassland incentive program, bringing the total paid to over 100,000 farmers to $73 million. These payments were charged to the reserve of $100 million established in 1969-70 by Agriculture Vote 17b, Appropriation Act No. 1, 1970, *1969-70, c.24,* leaving a balance of $27 million in the reserve at March 31, 1972.

The cost of administration of both programs during the year was charged to Agriculture Vote 10. Excluding the salaries of the full-time personnel of the Prairie Farm Assistance Act Administration at Regina who administer the programs, the cost was $799,000.

70. *Inadequate internal control and accounting procedures.* Our examination of the records of the Canada Council for the year ended March 31, 1972, revealed that some of the weaknesses in internal control, accounting and financial procedures referred to in our 1971 Report (paragraph 67) still existed although remedial action has recently been taken in certain areas. The situation is as follows:

ACCOUNTS RECEIVABLE.

1. Application forms do not state that awards and grants rescinded by the Council are required to be repaid by award holders although this information is given in a booklet provided by the Council to award holders. We have been advised that this statement will be included when the forms are reprinted.

2. The charging of interest on unpaid balances is still prohibited by the Council, greatly reducing the incentive to repay promptly.

CHEQUE ISSUE CONTROL. Our recommendation that the cheque mailing operation be separated from the cheque preparation and bank reconciliation operations has not been adopted.

TRAVEL. We again noted instances where accommodation, meals and entertainment expenses were charged directly to the Council by employees in travel status and subsequently paid for by the Council without further approval. A directive issued since the year-end requires that travel and hospitality expenses be approved by a senior officer before payment is made.

JOURNAL VOUCHERS. Journal vouchers for other than investment transactions were still not being approved by anyone in authority. However a directive issued recently requires that journal vouchers be approved by a designated senior officer.

The Council does not have an internal auditor. We feel that because of the size of the operation an internal verification is required and have recommended that steps be taken to make such an appointment.

71. *Faulty computer system planning.* In November 1970 the Canada Council appointed a firm of consultants to design and implement a computer-based management information system for its research grants program. Such a system could affect the Council's internal financial control and because of this we drew to the attention of management the importance of carrying out a study beforehand to determine possible alternatives.

Early in 1972, due to difficulties encountered in making the system reliable, the Council suspended further implementation and appointed another firm of consultants to conduct an overall assessment of the system. As the conclusion of the assessment was mainly negative, the Council decided to proceed no further with its development.

To March 31, 1972, approximately $70,000 had been spent for consulting and computer services with no apparent benefit to the Council.

72. *Unusual loss on a partnership operation.* Last year (paragraph 70) we reported that the Canadian Broadcasting Corporation had invested $1.6 million in a wholly-owned subsidiary company, St. Clair River Broadcasting Limited (St. Clair), which in turn had entered into a partnership agreement with a private company to purchase Windsor television station CKLW with effect from March 1, 1970.

St. Clair's investment in the partnership, representing a one-quarter interest, had been impaired to the extent of $784,000, its share of the $3,135,000 operating loss of the television station to March 31, 1971.

At March 31, 1972, St. Clair's investment was $1,574,000 which had been impaired to the extent of $1,218,000, its share of the $4,872,000 accumulated operating loss of the television station to March 31, 1972. In addition St. Clair during the same period absorbed interest costs of $393,000 on its partner's notes and administrative expense of $8,000 and earned investment income of $215,000 including $197,000 interest on cash contributed to the partnership. Its loss to March 31, 1972, thus amounted to $1,404,000.

The equity of the Canadian Broadcasting Corporation in St. Clair was therefore reduced from $1,600,000 at March 1, 1970, to $196,000 at March 31, 1972. No provision for this loss had been made in the accounts of the Corporation at that date but attention was drawn to it in a note to its financial statements.

It should be noted that unless the losses experienced to date by the partnership are offset by subsequent profits, the Corporation, through its subsidiary St. Clair, will have to absorb the full loss of $4,872,000 because of the requirement that on or before May 31, 1975, St. Clair purchase its partner's share at cost, $3,750,000, plus interest and its partner's share of any accrued profits to date of sale.

73. *Failure of a Crown corporation to deduct and remit employees' taxes to the United States Government.* In our 1969 Report (page 38) we noted that the Canadian

Broadcasting Corporation had not complied with the United States Internal Revenue Code during the period April 1, 1966, to December 31, 1968, when it had not made and remitted deductions from the salaries and allowances of its employees stationed in the United States with respect to United States income tax and under the United States Federal Insurance Contributions Act. It also did not remit the employer's contributions under the United States Federal Insurance Contributions Act and under the United States Federal Unemployment Tax Act. The United States Internal Revenue Service had assessed the Corporation $129,000 which was subsequently increased to $146,000 (US$135,000).

The Corporation discharged the liability in 1969 and then stated that it did not intend to recover from the employees their share of the assessment.

The Standing Committee on Public Accounts in its Third Report 1972 presented to the House of Commons on June 30, 1972, recommended (see Appendix 1, item 40):

> That the CBC should immediately take steps to attempt to recover the $134,573.99 from the 17 employees involved.

This is a United States dollar amount which, to the best of our knowledge, is made up as follows:

Employees—		
Income tax	US$ 91,297	
United States Federal Insurance contributions	8,356	
Interest	10,903	
		US$ 110,556
Employer—		
United States Federal Insurance contributions	15,936	
United States Federal Unemployment tax	5,537	
Interest	2,545	
		24,018
		US$ 134,574

The President of the Corporation in a letter dated January 15, 1973, to the Chairman of the Public Accounts Committee stated with regard to this recommendation that:

> ... after earnest consideration, the Corporation has concluded that it cannot act upon this recommendation.

74. *Improper retention of public moneys.* In December 1971, an agreement was entered into between Canada and a foreign country for the sale by Canada of 16 single-seat and 4 dual-seat CF5 military aircraft, the Canadian Commercial Corporation being designated to carry out the agreement on Canada's behalf. The Corporation was also designated to procure 20 new CF5D dual-seat aircraft, 18 for

the Department of National Defence replacing a similar number released for sale, and two for delivery to the foreign country.

The sale price was $34,113,200, including spares, training of pilots, technicians and other services, payable to the Canadian Commercial Corporation as follows:

1. a down payment of $5,628,678 within fifteen days of signing the agreement, and
2. the balance of $28,484,522 in ten equal and consecutive semi-annual instalments of $2,848,452 commencing on the first of March 1973 and ending on the first of September 1977 together with interest amounting to over $5 million. These instalments are secured by 10 promissory notes.

In addition, the foreign country agreed to pay the Canadian Commercial Corporation $928,883 representing administration fees, commitment fees and other financial charges, in 12 consecutive semi-annual instalments secured by non-interest-bearing promissory notes. All payments by the foreign country are to be in Canadian funds payable at a bank in the Bahamas.

The following transactions then took place pursuant to a multiplicity of agreements between the parties concerned:

1. The Canadian Commercial Corporation assigned all the foreign country's notes (i.e., $28,484,522 of interest-bearing notes and $928,883 of non-interest-bearing notes) to the Export Development Corporation.
2. The Export Development Corporation loaned $28,484,522 to the bank in the Bahamas, the amount to be paid to the bank in the period February 1, 1972, to November 30, 1973. The loan is repayable only as and when the notes are paid by the foreign country.
3. The bank undertook to pay $28,484,522 to the Canadian Commercial Corporation on the same dates and in the same amounts as payments were received by the bank from the Export Development Corporation.
4. The Export Development Corporation assigned the foreign country's notes amounting to $28,484,522 to the bank for collection from that country on the due dates. The bank is to repay the $28,484,522 loaned to it by the Export Development Corporation as the notes mature, and in addition turn over to the Corporation the interest collected thereon.
5. The Export Development Corporation paid the bank the sum of $50,000 as compensation for its services.
6. The Canadian Commercial Corporation entered into a contract with the Department of Supply and Services (Defence Production Revolving Fund) for the manufacture and supply of 20 CF5D dual-seat aircraft at a cost of $34,113,200—later reduced by $872,200 to $33,241,000.
7. The Canadian Commercial Corporation entered into a contract with an aircraft manufacturer in the amount of $872,200 comprising $500,000 for "marketing expenses" associated with the sale of the aircraft to the foreign country and $372,200 for technical services to be supplied to that country directly by the aircraft manufacturer.

In summary, the Canadian Commercial Corporation has sold 20 CF5 aircraft, 18 from the Department of National Defence inventory and two which are to be manufactured, to the foreign country for $34,113,200 and has arranged to obtain the full amount in cash by selling the country's notes to the Export Development Corporation. The Canadian Commercial Corporation has invested the proceeds and

is proceeding to disburse them in the acquisition of 18 aircraft for the Department of National Defence and 2 for delivery to the foreign country.

Eighteen of the twenty aircraft sold to the foreign country were "public property" and the proceeds of the sale of these became "public money" when received by the Canadian Commercial Corporation acting as agent of the Minister of Supply and Services in carrying out the sale. Section 11 of the Financial Administration Act requires that all "public money" be deposited to the credit of the Receiver General. Furthermore, section 11(2) of the National Defence Act, *R.S., c. N-4,* and Vote 48 of Appropriation Act No. 2, 1966, *1966-67, c.3,* provide that the proceeds of such sales be credited to special accounts in the Consolidated Revenue Fund. Consequently, their retention by the Canadian Commercial Corporation is in our opinion unlawful.

The Defence Production Revolving Fund is committed to the acquisition of 18 replacement aircraft for the Department of National Defence and 2 for delivery to the foreign country at an estimated cost of $48.3 million. The resources intended to be used for this purchase appear to be:

Canadian Commercial Corporation:	
Proceeds of sale	$ 33,200,000
Sales tax rebate with respect to aircraft sold	2,000,000
Interest earned on funds withheld from Consolidated Revenue Fund	1,700,000
	36,900,000
National Defence appropriations	10,500,000
Not provided for	900,000
	$ 48,300,000

It would appear that the purpose behind the circuitous manner of handling the sale and replacement of these aircraft was to have additional funds on hand to purchase the new aircraft without obtaining a parliamentary appropriation, by using the resources of the Export Development Corporation to liquidate the foreign country's notes, and by earning interest on these and other funds withheld from the Consolidated Revenue Fund until they were actually required. The administrative cost of carrying out the transactions in this manner, involving the Canadian Commercial Corporation, the Export Development Corporation and others, must be considered non-productive.

Such procedures were clearly devised to circumvent parliamentary control.

Section 63 of the Financial Administration Act requires the Auditor General to report the circumstances to the President of the Treasury Board whenever it appears to him that any public money has been improperly retained by any person. In compliance with this requirement, we wrote to the President of the Treasury Board on October 13, 1972, informing him that the Canadian Commercial Corporation, in connection with the sale of CF5 aircraft to the foreign country, had received as a down payment from that country and by selling notes to the Export Development

Corporation, a total of $31,334,989 which had been retained and invested in securities on which interest amounting to $280,772 had been earned. We stated that the retention of these moneys by the Canadian Commercial Corporation was unlawful and that it would appear that this violation of the law might continue for several years unless steps were taken by the Executive to terminate it. We suggested that the Corporation be instructed to immediately:

1. Pay over to the Consolidated Revenue Fund for credit to the special accounts the gross amount of all moneys received with respect to the sale of the aircraft, including the proceeds of disposal of the promissory notes of the foreign country. This amount was $30,701,880.

2. Pay over to the Consolidated Revenue Fund for credit to the special account the sales tax rebates received from the Department of National Revenue and unlawfully retained by the Corporation. These rebates amounted to $633,109.

3. Pay over to the Consolidated Revenue Fund for credit to the revenues of Canada all interest earned from the investment of the moneys unlawfully retained by the Corporation. This interest amounted to $280,772.

4. Submit to the Department of National Defence for reimbursement accounts covering $500,000 paid to an aircraft manufacturer in connection with the sale and all other payments made by the Corporation from the funds while they were unlawfully held by it. These payments, including the $500,000, totalled $8,978,511.

We then added that if this sale of aircraft had been handled in a normal manner, the Consolidated Revenue Fund would in due course have received an additional $928,883, representing administration fees, commitment fees and other financial charges, when non-interest-bearing notes of the foreign country were paid. However, as these notes had been endorsed by the Corporation over to the Export Development Corporation and were being presented for payment through the bank in the Bahamas, there was presumably nothing that could be done at that late date to correct the shortfall of this amount in the Consolidated Revenue Fund.

In his reply on January 29, 1973, the President of the Treasury Board stated that the matter of illegality was fully considered by the legal advisers to the Department of Supply and Services prior to the sale taking place. He went on to say that the Treasury Board's legal advisers had confirmed to him that in their opinion, the retention of these funds by the Canadian Commercial Corporation for the purpose of acquiring the replacement aircraft is lawful.

That the law officers of the Crown are of the opinion that the retention from, and investment outside of, the Consolidated Revenue Fund of public money in this way is lawful would seem to indicate that the Financial Administration Act does not protect the concept of parliamentary control to the extent generally understood. Parliament cannot control departmental spending—in this case an expenditure of $48 million for 20 aircraft—unless all receipts of public funds are impounded in the Consolidated Revenue Fund until released by Parliament for spending. This is a most serious situation and we recommend to Parliament that it require the law officers of the Crown to draft for Parliament's consideration suitable amendments to

the Financial Administration Act that will ensure that the retention of public funds in this way can no longer be considered lawful.

75. *Warehouse losses.* The Canadian Dairy Commission in supporting dairy prices is authorized to purchase and dispose of butter, skim milk powder and other dairy products. These products are stored in privately-owned warehouses where a number of losses other than by fire or theft by outsiders have occurred during the past two years.

1. When a stock of some 25,000 pounds of butter valued at $15,000, stored in a creamery in Morrell, P.E.I., was required in February 1971 it had disappeared. (See paragraph 290 of our 1971 Report.)

2. In September 1971 when the butter stock was removed from a Montreal warehouse it was found to be some 300,000 pounds short of the amount called for by warehouse receipts held by the Commission. A claim for $197,000 against the warehouse operators has been referred to the Department of Justice. Earlier in the same year a loss of skim milk powder and butter valued at $81,000 had occurred when the roof of the warehouse collapsed during a snow storm (see paragraph 290 of our 1971 Report). Settlement has been delayed pending determination of the basic cause of the collapse.

3. In November 1971 another Montreal warehouse was short some 343,000 pounds of skim milk powder valued at $68,000 when the stocks were cleared from the warehouse. The warehouse operator claimed that the loss represented normal breakage and spillage over a period of eight years. The Commission, on the advice of the Department of Justice, has agreed to accept in settlement of its claim a reduction of $12,000 in future warehouse rental charges. To October 31, 1972, the Commission had recovered $2,800.

The Commission does not require any form of insurance or performance bond with respect to its stocks of dairy products. As far as insurance against fire and theft by outsiders is concerned, this is in accordance with the Crown's policy of self-insurance because of its widespread risk. However, there are numerous risks involved in the storage of the Commission's inventories which should not be self-insured and from which the Commission can protect itself only by having the warehouse operator assume responsibility and provide a performance bond to guarantee that his responsibility is carried out. These risks include not only carelessness or fraud on the part of the warehouse operator and his staff in handling the goods, but also many risks which some warehouse receipts define as being those of the Commission such as rain, frost, moths, heating or corruption, breakage, dampness, rats, mice, other vermin, changes in temperature, contact with odours from other goods, etc.

In order to reduce the possibility of future losses, the Commission should review its storage policies.

76. *Escalation of costs relating to developing and implementing a computer-based management information system.* In February 1967 the Board of Broadcast Governors (now the Canadian Radio-Television Commission) with the approval of the Treasury Board entered into a contract in the amount of $35,000 with a firm of computer systems consultants to study the planning and implementation of a management

information system compatible with the developing needs of the Board. The actual cost of this preliminary study was $38,500.

Subsequently the Treasury Board authorized the entry into a contract with the same firm at a ceiling price of $290,000 on the understanding that the management information system being contracted for would be set up and operating at the end of 24 months. However, the contract entered into with the consultants provided for them to work over a two-year period at the tasks required to develop and implement the system.

Although the system, comprising nine sub-systems, was to have been completed by October 1969, none of the sub-systems was operational at that time. As a result, the contract was extended with Treasury Board approval for another 14 months to December 1970 at an additional cost of $66,000 on the understanding that no additional funds over and above $356,000 would be required to complete the work. In July 1971 only two of the sub-systems were operational. The remaining systems still required programming and other associated work which the Commission then undertook to complete. Since that time a new contract for $4,000 has been entered into with the same firm for assistance in the further development of one of the incomplete sub-systems. To date only six sub-systems are operational.

In response to our inquiry as to the reasons for the significant delays and additional costs incurred in the implementation of the system, management has informed us that the major contributing factors were the operational tasks made necessary by unforeseen problems involved in the implementation of the Broadcasting Act, *R.S., c. B-11*, which was assented to on March 7, 1968, the increased work load due to cable television, redesign of forms and specifications, recruiting problems, licensing activities and the extension of radio and television services across Canada.

In addition to the $399,000 paid to the consultants, the Commission's development costs to March 31, 1972, were $243,000 which together with an estimate of $55,000 for 1972-73 will bring the total development cost of the system to $697,000.

77. *Settlement for property acquired.* In last year's Report (paragraph 74) we referred to the acquisition by the Cape Breton Development Corporation on March 30, 1968, under authority of section 9 of the Cape Breton Development Corporation Act, *R.S., c. C-13,* of lands and personal property located on Cape Breton Island, and interests in land and personal property located under adjacent waters that constituted or formed part of the works and undertakings operated or carried on by Dominion Coal Company, Limited, Nova Scotia Steel and Coal Company, Limited, The Dominion Rolling Stock Company Limited, Sydney and Louisburg Railway Company, The Scotia Rolling Stock Company Limited and The Cumberland Railway Company. We pointed out that the notes forming an integral part of the financial statements of the Corporation's Coal Division for the year ended December 31, 1969, disclosed that the cost of acquisition, if any, to be paid by the Minister

of Finance out of the Consolidated Revenue Fund, under authority of section 19 of the Act, had not yet been determined and no payments had been made. A similar note forming an integral part of the financial statements for the year ended December 31, 1970, disclosed that an offer of settlement in the amount of $11,000,000 filed in the Exchequer (now Federal) Court of Canada had not been accepted and settlement negotiations were in process. The financial statements for the year ended December 31, 1971, disclosed that the situation was unchanged. However, late in 1972 settlement in the amount of $14,654,000 was agreed to. (See paragraph 364 of this Report.)

78. *Failure to file statements and annual summaries.* Section 128(1)(b) of the Canada Corporations Act, *R.S., c. C-32,* requires public companies and all private companies with gross revenue in excess of $10 million or assets in excess of $5 million, except personal corporations as defined in the Income Tax Act, *R.S. 1952, c.148,* to file annually a copy of their financial statements with the Department of Consumer and Corporate Affairs. A filing fee of $10 is set by the tariff of fees. Section 129.1(1), which came into force on March 31, 1971, provides for a fine on summary conviction of from $100 to $500 a day for failure to file statements as required by the Act.

Section 133(2) of the same Act requires every company to file with the Department on or before the first day of June in every year an annual summary giving certain information concerning the company and its directors. The fee for filing is $10. Section 133(3) provides for a fine on summary conviction of from $20 to $100 a day when a company is in default in the filing of this annual summary. If a company does not file an annual summary for two consecutive years, there is a provision in section 133(9) for the Minister to give a year's notice that the company will be dissolved unless it files the summaries as required.

In previous Reports (paragraph 75 in 1971) we have drawn attention to the inability of the Department to enforce the filing of financial statements even though 717 companies were in default at November 30, 1971, of which 143 had never filed statements some dating as far back as 1917. Penalty provisions came into effect on March 31, 1971, and in October 1972 the Department commenced screening 702 companies in default to determine which of these are active and may be prosecuted successfully.

We also referred in last year's Report to the failure of 3,765 companies to file an annual summary and to the publication in the *Canada Gazette* of the names of 627 companies that had been in default for more than two years. At March 31, 1972, 2,728 companies were in default and during the year the names of a further 949 companies were published in the *Canada Gazette*. The Department identified 21 companies in default of filing summaries as still active in October 1972 and has subsequently instructed the Department of Justice to prosecute 8 which continued to be in default.

79. *Diversion of revenue.* To meet its administrative and operating costs, Crown Assets Disposal Corporation is authorized to retain a percentage of the selling price of surplus assets sold by it. The remainder of the sales proceeds must be remitted to the Receiver General for credit to the Consolidated Revenue Fund.

In the case of sales of defence materials the net proceeds are credited to a special account in the Consolidated Revenue Fund from which the Department of National Defence, with the approval of the Treasury Board, may make disbursements for any of its purposes.

The Corporation is permitted to accumulate a surplus of no more than $300,000 and, pursuant to section 71(4) of the Financial Administration Act, is required to remit to the Receiver General, for credit to the Consolidated Revenue Fund, any amount of earned surplus in excess of that amount.

It is the policy of the Corporation to withhold its full commission from the first payments received. However, an exception was made in the case of the Corporation's commission on sales of surplus military aircraft totalling $8,170,000. Instead of retaining 10% of the sales value, $817,000, out of the initial payment of $1,117,000 and remitting $300,000 to the Receiver General for credit to the National Defence Surplus Crown Assets Account, the Corporation retained 10% of the down payment only, $111,700, and remitted $1,005,300 to the Receiver General for credit to the Account. The difference of $705,300 was treated by the Corporation as deferred income.

The Corporation already held its maximum permissible surplus of $300,000 and had its policy been followed with respect to the commission on this sale, the amount of its surplus in excess of $300,000 transferred to the Consolidated Revenue Fund as revenue in 1971-72 would have been greater by $705,300.

The effect of this deviation from policy was to divert without authority $705,300 from the 1971-72 revenues of Canada to the National Defence Surplus Crown Assets Account where it was available to that Department for spending with the authority of the Treasury Board. Furthermore, by this deviation from policy the Corporation assumed a portion of any risk there may be of the full purchase price not being paid.

For these reasons, our report dated May 18, 1972, to the Minister of Supply and Services covering our examination of the accounts and financial statements of the Corporation for the year ended March 31, 1972, was qualified by reference to this transaction. (See also paragraph 340 of this Report.)

80. *Grant paid without parliamentary approval.* In 1967 the Department of Energy, Mines and Resources was authorized to sponsor an International Geological Congress in Canada in 1972 at a cost not to exceed $150,000. Grants totalling that amount were subsequently approved by Parliament and paid to the National Organizing Committee which was incorporated as the "24th International Geological Congress, Inc.".

In 1971 the Treasury Board authorized the Department to make an additional grant of $132,000 to the National Organizing Committee to assist in the cost of publishing bilingual guidebooks for the use of participants at the Congress. The Board directed the Department to absorb the grant within its 1971-72 appropriations and the grant was then paid from Energy, Mines and Resources Vote 5.

The grants listed in the Estimates under Energy, Mines and Resources Vote 5, 1971-72, did not include this grant of $132,000 and thus Parliament was not informed of the proposed grant nor given an opportunity to sanction the payment.

As is pointed out in paragraph 62 of this Report, the prior sanction of Parliament has always been a requisite for the making of a grant.

81. *Computer purchased on the instalment plan.* In our 1971 Report (paragraph 148) we referred to Treasury Board policy in relation to the various financial options available for computer acquisition, to one instance where the instalment plan option had been taken, and to the consequent infringement of control by Parliament.

In May 1971 the Treasury Board approved the purchase, on similar terms, of a computer system for the Department of Energy, Mines and Resources. The instalment purchase contract provides that title to the equipment will remain with the supplier until the purchase price is paid in full. The total instalment purchase price of $1,267,000 is $190,000 greater than the price for outright purchase. The difference is equivalent to interest at 8.2% on the unpaid instalments, a rate substantially higher than that for normal borrowings during the year.

We reiterate our comment in last year's Report that the instalment purchase method of financing is a serious departure from the concepts of the Financial Administration Act, infringing upon Parliament's control over borrowings and violating the principles on which the following sections of the Act are based:

(1) section 36 which provides that no money shall be borrowed or security issued by or on behalf of Her Majesty without the authority of Parliament;

(2) section 37 which provides that where Parliament has authorized the borrowing of money, the Governor in Council may authorize the Minister of Finance to borrow the money by the issue and sale of securities in such form, for such separate sums, at such rate of interest and upon such other terms and conditions as the Governor in Council may approve;

(3) section 39 which specifically empowers the Governor in Council to authorize the Minister of Finance to obtain temporary loans for a period not exceeding six months.

Further, although section 40 of the Act requires that a statement of all borrowing transactions shall be included in the Public Accounts, there is no disclosure of indebtedness arising from instalment purchases.

82. *Ex gratia payment to departmental employee.* An *ex gratia* payment is a payment made without legal liability. Because of this, such payments require the approval of the Governor in Council and when in excess of $100, in compliance with

a request of the Public Accounts Committee in its Second Report 1961 (concurred in by the House of Commons on April 26, 1961), are to be listed in the Public Accounts.

During the year an employee of the Department of Energy, Mines and Resources was paid $350 as partial reimbursement of a loss, probably by theft, of $460 of public funds entrusted to him.

Payment of this amount on an *ex gratia* basis was not approved by the Governor in Council, nor has it been reported in the Public Accounts, as is the practice in such cases.

83. *Defence costs charged to Environment appropriation.* In paragraph 197 of our 1971 Report we noted that for many years the Department of Transport had provided the Department of National Defence with meteorological services on a non-recoverable basis under agreements approved by the Treasury Board. A joint submission to the Board had been made, seeking transfer to the Department of National Defence of financial responsibility for meteorological support, commencing with 1971-72. However, the Board, although acknowledging that to charge the cost of such services to defence programs would be consistent with program budgeting principles, withheld approval of the transfer because an increase in the National Defence budgetary ceiling could not be permitted.

In the 1971-72 Estimates, provision for expenditures of the former Meteorological Branch of the Department of Transport was made in the appropriations of the Department of the Environment. The charge to those appropriations for services provided to the Department of National Defence during the year amounted to $2,200,000.

84. *Vote wording which permits expenditure to exceed funds voted by Parliament.* External Affairs Vote 10 reads as follows:

> The grants listed in the Estimates, contributions and authority to pay assessments in the amounts and in the currencies in which they are levied, and authority to pay other amounts specified in the currencies of the countries indicated, notwithstanding that the total of such payments may exceed the equivalent in Canadian dollars, estimated as of January, 1971 which is $16,506,000.

Supplementary Estimates (A) provided an additional $773,000 and stated that the new total of $17,279,000 was estimated as of October 1971. Supplementary Estimates (B) authorized the transfer of $35,000 from External Affairs Vote 1 and stated that the proposed expenditure of $17,314,000 was estimated as of January 1972. Expenditure charged to the Vote totalled $18,180,000 which is $866,000 in excess of the funds provided. The excess resulted mainly from Canada's assessment for the United Nations being $780,000 higher than was estimated. Eleven other contributions were also paid in amounts in excess of the original estimates.

Similar vote wording has existed for many years, when each contribution was the subject of a separate vote, in order to permit the payment of the contribution

notwithstanding a change in the rate of exchange or a higher membership assessment which increased the Canadian dollar amount over the amount voted. However, since 1966 grants and contributions have all been provided for in a single vote and prior to 1971-72 the total payments never exceeded the amount appropriated.

Because of the flexibility that is provided by including all contributions to international organizations in a single vote we are of the opinion that continuation of the unusual provisions in the Vote whereby the total expenditure may exceed the amount appropriated is neither necessary nor desirable. Furthermore, Parliament would be better informed if supplementary estimates were sought when there is a substantial increase in a contribution over the amount that was originally estimated.

85. *Departmental audit of missions abroad.* In our Reports for 1964, 1965 and 1966 we referred to errors and defalcations that had occurred at various missions of the Department of External Affairs and to the need for improvements in financial control, including the setting up of a small internal audit staff. The Treasury Board approved the establishment of two internal auditor positions in April 1966. The Public Accounts Committee, after reviewing our 1964 and 1965 Reports, recommended in its Tenth Report 1966-67 presented to the House on February 7, 1967, that the necessary staff be appointed without delay to carry out periodic examinations of the financial transactions and related administrative procedures at missions abroad.

In August 1967 one internal auditor was appointed as part of the Inspection Service of the Department. This Service was first established on a permanent basis in 1956, but it was not until the two positions for internal auditors were authorized in 1966, and operational auditing was introduced in 1967, that emphasis was placed on a review of the adequacy of departmental accounting, financial and operating controls and the extent to which both missions and headquarters' divisions were complying with them. The goal of the Inspection Service has been to visit each post at least once every three years.

In 1964 when we first suggested that a small audit staff be established, there were only 85 missions abroad and financial controls were centered in Ottawa. Staff abroad totalled 1,475 including 625 locally-engaged employees. Since then a new system of financial management has been introduced by the Department, greater financial responsibility has been delegated to missions abroad, the administrative support function of the foreign activities of other departments has been integrated with those of the Department, and there are now 120 missions with a staff of 2,952 including 1,887 locally-engaged employees.

In the past four years the number of missions visited by the internal auditor, either alone or with other members of the Inspection Service, has varied from 9 to 16. In March 1972 we made examinations at the Canadian missions in London, Paris and Brussels. A number of weaknesses were disclosed, all of which have been reported to the Department.

As the frequency of examination of missions of the Department has been substantially below the goals established for the Inspection Service, consideration should be given to strengthening the internal audit staff.

86. *Cost of architectural services and storage charges relating to an abandoned project, New York.* In 1968 a decision to renovate the offices of the Consul General in New York City was made by the Department of External Affairs after consultation with other government departments and agencies occupying space in the building. In early 1969 an architectural firm was employed to produce working drawings and specifications and to supervise the renovations in accordance with New York City by-laws. In September 1969, because of the government austerity program, the project was cancelled and the contract with the architectural firm was terminated. An amount of $3,000 was paid to the firm for work carried out.

In October 1970, the project was reactivated. The same architectural firm was employed and the design, working drawings and specifications were completed. Tenders for the project were obtained in April 1971 but all were considered to be excessive. This, together with the fact that there was a significant decline in the New York real estate market at that time, caused the Department to again cancel the renovation project and to lease alternative accommodation with effect from December 1972. The cost of architectural and related fees was $25,000.

In February 1971, office furniture costing $67,000 had been purchased as part of the renovation project, with delivery ordered for March 31, 1971. Because of the cancellation of the project, the furniture was kept in storage in Toronto until June 1972 when it was shipped to New York and again placed in storage. Storage charges in Toronto amounted to $6,000 and in New York to approximately $5,000.

The overall non-productive cost to November 30, 1972, was therefore approximately $39,000.

87. *Indirect compensation to chartered banks.* Since 1962 (paragraph 77 in 1971) we have been drawing attention to the fact that, although there is a prohibition in section 93 of the Bank Act, *R.S., c. B-1,* against a bank making a charge for cashing a cheque or other instrument drawn on the Receiver General, the banks have been benefiting from banking arrangements whereby large interest-free balances are left on deposit. On three occasions the Public Accounts Committee has expressed the view that if banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act (see Appendix 1, item 6).

In its Seventh Report 1966-67, which was presented to the House on October 26, 1966, the Public Accounts Committee requested explanations from the Department of Finance on three points associated with the practice. On October 15, 1969, the Minister of Finance wrote to the Chairman of the Public Accounts Committee

outlining the views of the Department but the Committee has not yet given consideration to these views.

During the year the Government continued to maintain large balances in all the chartered banks in the special deposit accounts covered by these long-standing banking arrangements. The banks, as in past years, were required to pay interest only on the amount by which the aggregate of the minimum weekly balances exceeded $100 million. Under these arrangements the daily aggregate of the interest-free balances in 1971-72 ranged from $100 million to $1,312 million. Interest earned in 1971-72 totalled $46 million compared with $25 million in 1970-71 despite a decline in the average weekly interest rate from 4.69% in 1970-71 to 3.09% in 1971-72. The increase occurred because of the substantial increase in the average minimum weekly amount on deposit.

Reference is made in paragraph 88 of this Report to interest-free balances, aggregating $30 million at March 31, 1972, maintained in chartered banks by the Unemployment Insurance Commission.

88. *Unemployment Insurance Commission special Receiver General bank accounts.* Under a long-standing banking arrangement in connection with the cashing of Unemployment Insurance warrants, the Unemployment Insurance Commission maintains an interest-free account in each of five designated chartered banks which act as regional clearing agents for Unemployment Insurance warrants in the five administrative regions of the Commission. A deposit, in the form of a Receiver General cheque equivalent to the total of the warrants charged to the account during the day, is made in each account daily so that the closing balances remain the same from day to day. The balances are adjusted monthly to equal four times the average daily encashment of warrants in the preceding month. The aggregate on deposit at March 31, 1972, was $30 million.

As these warrants are instruments drawn on the Receiver General, they are in the same category as those referred to in paragraph 87 of this Report and our comments and the recommendation of the Public Accounts Committee with respect to the interest-free balances of $100 million maintained with the chartered banks, apply equally to these interest-free balances of $30 million.

We would suggest that these five accounts be closed and that Unemployment Insurance warrants be redeemed from the banks by the several agencies of the Bank of Canada, along with other instruments drawn on the Receiver General which are cleared in this way.

89. *Deficit in the Exchange Fund Account.* In paragraph 79 of our 1971 Report we drew attention to the deficit of $231,583,000 in the Exchange Fund Account at December 31, 1970, and to comments made in our 1959 Report (page 17) concerning the deficit of $204 million at December 31, 1958, which had accumulated from the sale and revaluation of gold, securities and foreign currencies to that date.

We also drew attention to our 1960 Report (page 49) where we expressed the opinion that as the loss in the Exchange Fund Account represented a cost of exchange management over the period since establishment of the Account, it should be written off in the accounts of Canada with parliamentary authority. We also stated that in our opinion consideration should be given to transferring annually to the Consolidated Revenue Fund the profit or loss resulting from the trading operations and revaluations of holdings.

The matter was considered by the Public Accounts Committee in the course of its 1961 meetings and in its Fifth Report 1961 the Committee recommended that the Minister of Finance be requested to submit to the Committee a report dealing with the desirability of writing off the loss.

Before the Minister of Finance submitted a report to the Committee, the weakening of the Canadian dollar in relation to the United States dollar served to eliminate the deficit from the accounts of the Exchange Fund and, in the period during which the value of the United States dollar in Canada was maintained at $1.08108 Canadian, the Exchange Fund Account showed a surplus of approximately $30 million.

In a statement to the Public Accounts Committee on July 21, 1964, the Minister of Finance proposed that profits or losses in the Exchange Fund Account, other than those arising from revaluations, be transferred from the Account to the Consolidated Revenue Fund annually. He also proposed that no decision be taken at that time to transfer to the Consolidated Revenue Fund future profits or losses at year-ends arising from changes in exchange rates and that the surplus in the Fund remain there to serve as a modest reserve against any possible future revaluation losses. In its Sixth Report 1964 the Public Accounts Committee noted the Minister's remarks and commented as follows:

> The Committee is glad to note that in future, commencing with this year or as soon as the necessary parliamentary authority is obtained, the annual balance of profit or loss arising from trading operations and investment, including interest and discount on securities, trading profits and losses on purchases and sales of foreign exchange, gold and securities, and the net valuation adjustments on unmatched purchases or sales during the year, is to be transferred to the Consolidated Revenue Fund.
>
> The Committee approves of the Minister's proposal that the surplus of $30.3 million at December 31, 1963 be left in the fund to serve as a reserve against any future revaluation losses.
>
> The Committee understands the reluctance of the Minister to decide today whether future profits or losses arising from changes in exchange rates should be transferred to the Consolidated Revenue Fund at each year-end because of the possibility of these causing serious distortions in the budgetary accounts. However, the Committee also noted the statement by the Auditor General that the present surplus would be much larger had past exchange losses been charged to expenditure as they occurred, and that a drop of as little as two cents in value of the United States dollar can again cause the Exchange Fund Account to go into a deficit position. It therefore recommends that in the event the holdings of the Account drop in value by an amount sufficient to eliminate the above-mentioned surplus and create a deficit in the

> Account, the Minister of Finance of the day give immediate consideration to the elimination of the deficit in order to maintain the full value of the advances made from the Consolidated Revenue Fund to the Exchange Fund Account.

The Currency and Exchange Act, *R.S., c. C-39,* was subsequently amended to give effect to the Minister's views and now requires the annual payment into the Consolidated Revenue Fund of the net profit from trading operations in foreign exchange, gold and securities, and the net profit from the net valuation adjustments on unmatched purchases or sales of foreign exchange, gold and securities. These profits in the eight years 1964 to 1971 have amounted to a net of $19,739,000, all of which has been paid into the Consolidated Revenue Fund.

Following the freeing of the Canadian dollar on May 31, 1970, the value of the United States dollar holdings dropped, resulting in a substantial deficit in the Exchange Fund Account. However, no action has yet been taken to write this deficit off as a cost of exchange management, as recommended by the Public Accounts Committee, in order that the advances made from the Consolidated Revenue Fund to the Exchange Fund Account will reflect the current value of the assets held by that Account. At March 31, 1972, the deficit amounted to $217,460,000.

90. *Overpayment of interest to the Army Benevolent Fund.* Section 3 of the Army Benevolent Fund Act, *R.S., c. A-16,* provides in subsection 7 that:

> The Receiver General shall credit to the Fund semi-annually interest on the minimum balance to the credit of the Fund in each month . . . at such rate as may be prescribed by the Governor in Council . . .

Effective June 30, 1970, the rate of interest was increased from 4 3/4% to 7 1/2% per annum.

Every six months the Department of Veterans Affairs submits a statement of the balances in the Fund to the Department of Supply and Services to be used in the interest calculation. Although the statements refer to minimum monthly balances, in fact month-end balances have been given. Since April 1971 these balances have included substantial amounts held in trust for a limited period over the month-end.

Based on a review of cash balances in 1971-72 we estimate that for the year ended March 31, 1972, interest has been overpaid by $25,000 because of the failure to adhere to the legislative requirements for calculation of interest on the minimum monthly balance.

91. *Dividends not declared by the Canada Deposit Insurance Corporation.* Section 36 of the Canada Deposit Insurance Corporation Act, *R.S., c. C-3,* provides that:

> (1) The Corporation may declare and pay a dividend on its share capital at an annual rate equal to the rate of interest at which the Government of Canada is prepared, at the date the dividend is declared by the Corporation, to lend to a Crown corporation within the meaning of the definition "Crown corporation" in subsection 66(1) of the *Financial Administration Act.*

(2) The annual dividend shall be charged to the Accumulated Net Earnings, but a dividend may only be declared and paid in respect of a financial year of the Corporation in which the amount standing to the credit of the Accumulated Net Earnings is sufficient to meet the total amount of the dividend so declared.

These unusual dividend provisions would seem to indicate that the Crown is interested in receiving a return on its investment in the Corporation equal only to the rate of interest normally received on money loaned to Crown corporations.

The Accumulated Net Earnings at each year-end except the first, December 31, 1967, have been sufficient to meet the amount of the annual dividend permitted by the Act. However, it was not until after the year ended December 31, 1971, that the Corporation for the first time declared and paid a dividend on its $10,000,000 share capital.

The annual earnings and the annual dividends that could have been paid under the Act, based on minimum interest rates in effect immediately after December 31 or when declared, are as follows:

	Net earnings (after provision for losses)			Dividend	
	Year	Accumulated	Crown corporation loan interest rate	Permitted by Act	Paid
1967	$ 371,000	$ 371,000	6 5/16%	$ —	$ —
1968	815,000	1,186,000	6 3/4%	675,000	—
1969	1,450,000	2,636,000	8 1/4%	825,000	—
1970	466,000	3,102,000	5 %	500,000	—
1971	1,871,000	4,973,000	4 15/16%	493,750	493,750

The limitation in section 36 on the annual rate of dividend, in the absence of any requirement for the Corporation to subsequently make good the non-payment of a dividend in any year, operates to the disadvantage of the Crown in obtaining over the years a reasonable return on its investment. Thus, had dividends been declared in 1968, 1969, and 1970, the Crown would have received $2,000,000 which it cannot now receive, because of the limitations in section 36.

We would suggest that the Act be amended to permit the Corporation to make good in future years any annual dividend not declared.

92. *Interest on the public debt improperly charged to departmental programs.* In paragraph 80 of our 1971 Report we commented on a change in accounting policy which resulted in portions of the interest on the public debt being recorded as expenditures of the Treasury Board, the Department of National Defence and the Department of the Solicitor General instead of as charges to the statutory appropriation of the Department of Finance for interest on the public debt.

Canada's liability to participants in the several superannuation schemes is represented by the balances in the superannuation accounts which consist of

employer and employee contributions and interest earned less payments made to participants. These balances form part of the public debt of Canada and the interest payable with respect to them is therefore a charge to the statutory appropriation of the Department of Finance for interest on the public debt. Up to June 30, 1969, the authorized interest rate was 4%. On July 1, 1969, on the authority of regulations made pursuant to the respective Acts, the rate was increased to conform to the Canada Pension Plan interest rate. The resulting increase in interest for the period July 1, 1969, to March 31, 1970, amounting to $51,838,000 for the Public Service, the Canadian Forces and the Royal Canadian Mounted Police Superannuation Accounts, was properly charged to interest on the public debt.

In 1970-71 the change in accounting practice resulted in only the 4% portion of the interest being recorded as a cost of the Department of Finance—interest on the public debt, the remainder being shown as a cost of the other Departments. The practice was continued in 1971-72 and the additional interest was improperly recorded as expenditures of three Departments:

Treasury Board	$ 65,353,000
National Defence	58,669,000
Solicitor General	3,312,000
	$ 127,334,000

Since the Crown makes use of all superannuation funds to finance its operations, they form part of the public debt and the full interest accruing thereon should be charged to the Department of Finance as interest on the public debt.

93. *Reimbursement to Bank of Canada for bonds improperly redeemed.* In November 1968 an individual presented for redemption Canada Savings Bonds in the amount of $3,000, registered in his wife's name. In accordance with Bank of Canada instructions and procedures the bonds were endorsed by the chartered bank to the effect that the proceeds had been credited to the husband's and wife's joint account. A few days later the husband withdrew the proceeds from the joint account and several months later left his wife.

In October 1969, the Bank of Canada received a declaration from the wife, the registered owner, that the bonds had been redeemed by her husband without her knowledge and that she had not received the proceeds.

Canada Savings Bonds are redeemable at the option of the owner at any time and one of the conditions printed on the bonds reads:

> To obtain redemption of this bond the registered owner or his agent or attorney should present it at or before maturity to a bank and complete the application for redemption on the face hereof.

These conditions were broadened by instructions of the Bank of Canada to the chartered banks which included the following:

> The application for redemption printed on a Canada Savings Bond may be signed by the registered owner, or by his legal representative, or in lieu thereof, the bank may endorse the bond that the proceeds have been either credited to an account, or have been paid by cheque.

The law officers of the Crown were of the opinion that a court would hold that the chartered bank was not liable on the grounds that in crediting the proceeds to the joint account it did in fact credit the proceeds to the account of the registered owner. However, as there was no evidence that the husband was acting as authorized agent or attorney for his wife, the law officers also agreed that the wife was still the registered owner of bonds that had not been validly redeemed and so was fully entitled to all her rights under the terms of the bonds. The Bank of Canada paid the wife $3,465 for principal and interest on the bonds in question and has issued instructions to the chartered banks designed to prevent a recurrence.

Subsequently the Bank of Canada was reimbursed $3,465 with the approval of the Treasury Board, the charge being to Treasury Board Vote 5—Government Contingencies. The reimbursement was made pursuant to section 40 of the Domestic Bonds of Canada Regulations which states:

> Where a Redemption Agent for Canada Savings Bonds makes an erroneous payment and the Bank [of Canada] is satisfied that the error did not result from fault or negligence on the part of the Redemption Agent, the Treasury Board may, upon the recommendation of the Bank, relieve the Redemption Agent of liability to the Government of Canada and reimburse the Bank, but otherwise, the Redemption Agent shall reimburse the Bank in the amount of the loss sustained.

94. *Inadequate accounting and financial control procedures, Indian agencies.* In our past five Reports (paragraph 83 in 1971) attention has been drawn to the results of our examination of a number of the field offices maintained by the Department of Indian Affairs and Northern Development for the administration of its programs for the Indian population. Our comments have included reference to the need for a strengthening of financial control over field activities and to the remedial action taken by the Department.

During 1971-72 we carried out examinations at 11 of the 49 agencies and district offices and again criticized several matters including the internal control at five locations, the cash handling practices at six locations, the accounts receivable processes at six locations and the welfare administration at six locations. In connection with its visits to 30 of the other field offices the Audit Services Bureau of the Department of Supply and Services has commented upon shortcomings in the internal control at 24 locations, the cash handling practices at 21 locations, the accounts receivable processes at 21 locations, the purchasing procedures at 18 locations and the inventory procedures at 22 locations. It is quite evident that further remedial measures are necessary.

95. *Inadequate accounting for appropriation and Indian band funds.* Reference has been made in previous Reports (paragraph 84 in 1971) to the policy of the Depart-

ment of Indian Affairs and Northern Development of transferring to Indian bands responsibility for the management of public funds provided for various band programs and, in accordance with section 69 of the Indian Act, *R.S., c. I-6*, for the management of band revenue moneys. Attention was drawn to the results of the examinations we had carried out in connection with the yearly audited financial statements which the bands must provide the Department as a condition of the transfer.

During 1970-71 some 345 bands were responsible for management of approximately $23 million. A review of the departmental files revealed that a year after due date 27 bands had not submitted the required statements. Of the 318 received, 159 were qualified by the auditors and only 33 satisfied all of the departmental instructions, such as preparation of a balance sheet, completion of the Department's audit questionnaire and submission within three months of the fiscal year-end. Shortcomings were again evident in respect of reconciliation of the bands' statement figures with departmental records, with the figures in some cases not being presented in a manner suitable for reconciliation.

By March 31, 1972, the management of public funds and band revenues, amounting to approximately $40 million, had been extended to 454 bands. The financial statements due by June 30, 1972, have not yet been examined in the audit, the Department having received only 259 by July 31.

96. *Assistance to Indian association.* In January 1971 the Department of Indian Affairs and Northern Development obtained authority to enter into an agreement with an Indian association for the provision of community development services to Indian communities and leadership training to Indians. Payments totalling $320,000 were made to the association during the latter part of 1970-71 for purposes of the arrangement. In a subsequent review by the Department of a report on an audit of the association's records, carried out by the Audit Services Bureau of the Department of Supply and Services, difficulty was experienced in identifying the use to which certain of the funds had been put but the conclusion was reached that the moneys had not been fully expended by March 31, 1971. Consequently, only $60,000 was advanced in 1971-72 for the community development and training program, although the association had estimated that $325,000 would be required.

However, in February 1972 the Treasury Board approved an interest-free loan of $191,000 repayable over a period of five years to enable the association to settle its unpaid accounts at December 31, 1971, and a contribution of $80,000 to enable it to meet its operating costs in the period January 1 to March 31, 1972. In the case of the contribution, the association's requirements were considered to have been met in part by a payment of $34,000 made in January 1972 from Secretary of State Vote 40 and the balance of $46,000 was paid in February 1972 from Indian Affairs and Northern Development Vote 5. The loan was paid out on February 8, 1972, from Treasury Board Vote 5—Government Contingencies. Parliamentary approval thereof was later obtained in Indian Affairs and Northern Development Vote L19b. The

text of the Vote did not disclose that the loan had already been paid, but did indicate that the loan was subject to terms and conditions approved by the Governor in Council. There has been no such approval. Before the loan was disbursed to the association, it was arranged that a Fitness and Amateur Sport grant of $75,000 to be made to the association by the Department of National Health and Welfare would be applied towards reduction of the loan. This was done, reducing the amount of the loan outstanding at the year-end to $116,000.

97. *Improper charges to appropriation.* In March 1971 the Treasury Board issued a circular with respect to grants and contributions for which funds are provided through Appropriation Acts. It is stated in the circular that grants and contributions must be paid by March 31 of the fiscal year in which they are included in the Estimates if they are to be paid, the 30 days during April for making payments from old year funds under section 30 of the Financial Administration Act not being applicable in the case of grants. Notwithstanding this, six grants under the Indian Fishermen's Assistance Program, totalling $17,700, were paid in April 1972 and charged to Indian Affairs and Northern Development Vote 5 of 1971-72.

Another charge to the Vote involved a grant of $7,300 for Indian economic development. The relative cheque was issued on March 29, 1972, subject to certain conditions being met but was not released until June 1972. This was an improper charge to the 1971-72 appropriation as the conditions had not been met by March 31, 1972, and therefore the amount did not properly come in course of payment during the fiscal year 1971-72.

98. *Losses due to inadequate security deposits.* In paragraph 85 of our 1971 Report reference was made to the security deposits required under the Canada Mining Regulations and the Canada Oil and Gas Land Regulations to ensure the fulfilment of commitments made by individuals and companies. The deposits in the form of cash, bonds or an approved promissory note are to be equal to the value of the exploratory work to be done. We reported that up to July 1969 Canada bonds, including in some cases Canada 3% perpetual bonds which have been at a substantial discount on the market for many years, were accepted at par value by the Department of Indian Affairs and Northern Development for security deposit purposes. Because the amount realized from the disposal of bonds in the case of forfeiture was sometimes less than the value of the work to be performed, the Department had since that date required that Canada bonds received as security be accepted at market value. However, it did not call for additional security in respect of bonds lodged earlier, with the result that during 1970-71 the Crown had suffered a revenue loss of $22,900 when holders of exploratory or prospecting permits failed to fulfil the permit terms and forfeited their deposits.

During the year a further revenue loss of $79,400 was recorded as a consequence of the forfeiting of the deposits of six permit holders and of the realization of only

$59,800 on disposal of Canada perpetual bonds which had been accepted as security of $139,200.

At March 31, 1972, the Department still held Canada 3% perpetual bonds with a par value of $85,500, which had been accepted as security for that amount.

The following are other cases where the market value of securities held was substantially below the deposit required:

(a) The Department of Energy, Mines and Resources held Canada bonds with a par value of $846,000 as guarantee deposits at March 31, 1972. Although the deposit requirement at that date was $765,000, these bonds had a market value of only $646,000. No revenue losses have been recorded, but a loss of approximately $85,000 is anticipated upon realization of 3% perpetual bonds with a par value of $141,500 which have been declared forfeit and will have to be converted to cash.

(b) The Department of Consumer and Corporate Affairs was holding bonds as deposits of trustees in bankruptcy at their par value of $579,000 although their market value was $127,000 less than that amount.

(c) A Crown corporation, Defence Construction (1951) Limited, also held Canada bonds at March 31, 1972. In this case the security required was $311,000 but although the bonds had a par value of $315,000 the market value at March 31, 1972, was only $191,000 which was $120,000 short of the security required.

(d) Although the Department of National Revenue, Customs and Excise, no longer accepts Canada 3% perpetual bonds as security, it was holding these bonds with a par value of $160,000 and a market value of $65,000 at March 31, 1972. While in most cases the market value of the bonds was equal to or greater than the security required, there were six cases where the bonds held had a total market value of only $36,000 whereas the security required totalled $91,000.

(e) The Department of Supply and Services was holding Canada bonds as a contractor's security deposit at their par value of $52,000 although their market value was only $21,000 at March 31, 1972.

(f) The Department of Manpower and Immigration was holding bonds, as deposits of transportation companies carrying immigrants to Canada, at their par value of $90,000 although their market value was $19,000 less than that amount.

(g) The Department of Transport was holding Canada 3% perpetual bonds as a contractor's security deposit at their par value of $13,000 although the market value was less than half that amount.

Last year we expressed the view that, in order to reduce the possibility of similar losses in future, the Treasury Board should direct that departments accept bonds as security only at market value and that holdings be reviewed periodically and supplemented when necessary to ensure that the then market value provides the amount of security required. No such directive has been issued.

99. *Improper charge to Indian Affairs and Northern Development Vote 65 thereby supplementing Vote 70 for the National Battlefields Commission.* The duties, powers and functions of the Minister of Indian Affairs and Northern Development include

all matters relating to national parks, national battlefields and historic sites, not by law assigned to any other department, branch or agency of the Government of Canada. Funds for these purposes are provided under the Department of Indian Affairs and Northern Development Conservation Program which also includes a specific vote covering expenditure of the National Battlefields Commission, the agency accountable to Parliament through the Minister and by law responsible for the acquisition, management and control of the historic battlefields at Quebec.

Indian Affairs and Northern Development Vote 70 provided $400,000 for

> Payments to the National Battlefields Commission for the purposes and subject to the provisions of an act respecting the National Battlefields at Quebec.

The amount was to cover the net cash requirements of the Commission in 1971-72 and was based on its formally approved budget which forecast operating expenditures of $294,000, capital expenditures of $110,000 and miscellaneous receipts of $4,000. However, in May 1971 the forecast operating expenditures were increased by $112,000 to $406,000, due mainly to salary revisions arising from recently negotiated collective bargaining agreements, and capital expenditures were increased by $70,000 to $180,000, due to the Federal Labour Intensive Program introduced in the latter half of 1971-72. Although the increases were agreed to by the Department, a revised budget was not submitted for ministerial approval, nor was a Supplementary Estimate submitted to Parliament for its approval, with the result that the Commission did not have sufficient funds to cover commitments made under The National Battlefields at Quebec Act, *1908, c.57*.

Expenditures applicable to the operations of the Commission amounted to $582,000 comprising operating expenditures of $403,000 and capital expenditures of $179,000. These expenditures were borne to the extent of $409,000 by the Commission, $400,000 being financed from Vote 70 and the balance from miscellaneous receipts and working capital, and to the extent of $173,000 by the Department.

The amount borne by the Department was charged to Indian Affairs and Northern Development Vote 65, thereby supplementing the amount provided by Parliament for purposes of the Commission in Vote 70. The charge to Vote 65 was therefore improper.

100. *Failure to collect revenue due to the Crown because of inadequate control over contracts.* Under the Crown's program to provide Canadian defence industry with financial assistance for product development and for the establishment of Canadian sources of supply, the Department of Supply and Services on behalf of the Department of Industry, Trade and Commerce has entered into agreements providing for Crown contributions to approved projects. Although not required by the text of the vote providing funds, the agreements generally include a repayment provision whereby, in certain circumstances, the Crown may recoup its contribution from profits realized by the contractor on production resulting from the project assisted

or, alternatively, the contractor may invest an equivalent amount in further development work.

In our 1970 Report (page 46) we commented on the inadequacy of procedures in the Department of Industry, Trade and Commerce for the determination and collection of amounts which become due to the Crown under these agreements. We pointed out that a procedure whereby the Department periodically requested contractors to supply statements of follow-on production, sales and profits, was inadequate in that the request did not go to all contractors who had completed contracts, or to any contractors holding incomplete contracts, containing repayment provisions. Where requests had been sent, the Department had failed to follow up to ensure that replies were received. We noted one instance where a reply in May 1966 had indicated the contractor had achieved profits subject to repayment but the Department had not attempted to verify and collect the amount due to the Crown and another instance where the failure of the Department to take prompt, effective action resulted in the Crown not recovering $522,000 due from follow-on production achieved by another contractor. (See paragraph 101 of this Report.) We also suggested that a statement of general procedures was required to effect co-ordination of the activities of the Department, which is responsible for administration of the repayment and reinvestment provisions of the agreements, with those of the Department of Supply and Services, which is responsible for the overall administration of the agreements.

In our 1971 Report (paragraph 87) we indicated that there had been little improvement during 1970-71 in the procedures of the Department of Industry, Trade and Commerce and that no statement of general procedures to effect co-ordination of the complementary roles of the two Departments had been issued.

In its consideration of our 1970 Report, the Public Accounts Committee heard evidence on November 4, 1971, that new procedures had been instituted in September 1971 to correct the deficiencies in administration to which we had referred. We have reviewed these new procedures and their implementation to October 31, 1972, and have found the following inadequacies:

1. FAILURE TO SURVEY CONTRACTORS HOLDING INCOMPLETE CONTRACTS. The procedures do not provide for requests for statements of follow-on production, sales and profits to be sent to contractors until all expenditure by the Department under the contract is complete, even though development contracts often continue over many years with production proceeding concurrently with on-going development. In paragraph 103 of this Report we refer to an instance where a contractor achieved follow-on sales aggregating $59 million during the course of a ten-year development but has not yet submitted any report of profits.

2. DELAY IN MAKING SURVEY OF COMPLETED CONTRACTS FOR CALENDAR YEAR 1971. The procedures provide that requests for cost and profit information on follow-on production orders are to be sent out each January. The most recent general survey was in November 1971 at which time contractors were requested to supply information to December 31, 1970. Although some survey letters were sent out during 1972 with respect to contracts completed since the November 1971 survey, no general survey of completed contracts has been made for the calendar year 1971.

3. DELAYS IN DETERMINATION OF AMOUNTS DUE TO THE CROWN AND IN REQUESTING PAYMENT.

(a) In our 1970 Report we noted one instance where a reply in May 1966 indicated that the contractor had achieved profits subject to repayment but the Department had not determined the amount due or requested payment. It was not until June 1972 that a request for payment of $7,000 was finally sent to the contractor.

(b) In September 1971 the Department's internal audit section noted and reported an instance where a company submitted cost and profit statements over a four-year period showing accumulated profits due to the Crown at September 30, 1968, of $99,000. No request for payment was ever sent to the company. (See paragraph 104 of this Report.)

(c) In January 1972 a contractor reported profits from follow-on production for the year ended September 30, 1970, which under the terms of the agreement require him to repay the total Crown contribution of $50,000. No request for payment has been sent to the contractor.

(d) Pursuant to an agreement entered into in 1966, the Department has assisted a contractor in establishing a production facility by paying 50% of pre-production expenses to a maximum of $13,000. The agreement provides that the contractor repay to the Crown profits on follow-on production in excess of amounts determined to be fair and reasonable, until the Crown's contribution shall have been repaid. In June 1972 the contractor reported profits for 1968 of $281,000 on sales of $549,000 and profits for 1969 and 1970 of lesser amounts. The Department has indicated to us that as a general guide profits in excess of 15% shall be considered to be in excess of fair and reasonable amounts. Based on this guideline, the total Crown contribution is refundable; however, the Department has not yet determined that any amount should be repaid.

4. INADEQUATE MONITORING OF ALTERNATE INVESTMENT PROVISIONS. Assistance agreements frequently include a provision whereby, instead of repaying the assistance, the contractor may invest an equivalent amount in approved further development projects. The procedures instituted in September 1971 to correct the deficiencies in the administration of the repayment provisions do not provide for the monitoring of any alternative investment. Paragraph 102 of this Report deals with a case where the Department apparently gave retroactive approval to reinvestments in development projects already completed by the contractor with the result that the contractor has not been requested to pay profits of $2.7 million to the Crown.

5. RECOVERY WHERE CONTRACTOR BECOMES A SOLE SOURCE. The terms and conditions of the Defence Industry Productivity Program approved by the Treasury Board include the condition that if the project, to which the Crown has contributed, results in the contractor becoming the sole source of supply, then it is expected that the follow-on production orders will enable the contractor and the Crown to recover simultaneously their contributions in whole or in part on a *pro rata* basis. To give effect to this condition, the following clause is included in most development and source establishment assistance agreements:

> Should the Contractor as a result of this agreement become a sole source and obtain follow-on production contracts, the Minister [of Supply and Services] may direct the Contractor to include in its prices an amount which will enable the Contractor and Her Majesty to obtain the maximum practicable recovery of their contributions, the amounts so recovered to be divided *pro rata* between the parties.

The procedures instituted for the administration of the repayment provisions do not provide that consideration be given in each case to whether the contractor has become a sole source, nor have criteria been developed for determining whether recovery should be attempted in those cases where the contractor has become a sole source. In discussing this weakness in the

procedures with officials of the Department of Industry, Trade and Commerce we were advised that they did not anticipate that the sole source provision in the agreements would be invoked. In paragraphs 101 and 106 of this Report, we outline two instances where the sole source provisions were invoked by the Department of Supply and Services. The apparent lack of agreement between the two Departments as to when a contractor has become a sole source (paragraph 106) demonstrates a need for definition of the term.

In our view the procedures are not adequate to ensure that the expectation of recovery expressed in the terms and conditions of the Program which were approved by the Treasury Board will be realized.

In August 1972 the Treasury Board considered a submission by the Department of Industry, Trade and Commerce concerning terms and conditions for, and departmental approval of, individual projects under the Defence Industry Productivity Program. In conditionally approving the submission, the Board requested that the Department consult with officials of the Department of Supply and Services and the Treasury Board Secretariat with a view to determining the most effective way of handling the administration of agreements with companies under the Program. An administrative directive based on this consultation should go a long way towards meeting the need expressed in our past two Reports for a statement of general procedures to effect co-ordination of the administrative roles of the two Departments.

101. *Acquisition of Radio Engineering Products Limited.* In our 1970 Report (page 47) we commented on the failure of the Departments of Supply and Services and Industry, Trade and Commerce to collect $522,000 due to the Crown in repayment of contributions made to assist a contractor in the development of communications equipment. The contractor was Radio Engineering Products Limited. The repayment which became due in 1968 because the contractor was the sole source of the equipment developed was not collected since the Company was mistakenly offered the alternative of investing the moneys in further development. However, proposals submitted by the Company for other development projects were not approved by the Department of Industry, Trade and Commerce. In the meantime, the two major shareholders of the Company sold their 70% controlling interest to a United States corporation which subsequently acquired substantially all of the remaining shares. When payment of the $522,000 was finally requested in April 1970, the Departments were informed by the Company that, as its cash resources totalling $3.6 million had been loaned to its foreign parent company, no payment could be made.

On November 4, 1971, the Public Accounts Committee heard evidence in respect of our 1970 paragraph and in its Second Report, presented to the House on June 8, 1972, recorded its concern with the lack of communication between departments which had become apparent during questioning of officials of the Department of Industry, Trade and Commerce and stated its intention to reopen consideration of this paragraph on some future occasion.

In addition to its indebtedness to the Department of Industry, Trade and Commerce, the Company owed $4 million in income taxes, primarily in respect of profits earned in the Company's 1968 and 1969 financial years on the sale of equipment developed with Government assistance.

From 1969 to 1971 parent company management charges on which no withholding tax was reported to or assessed by the Department of National Revenue, reduced the loan balance to $3.2 million. In July 1971 an interest in a division of the parent company's business was accepted in settlement of the loan.

In August 1971 the Company agreed to pay the Crown weekly instalments of not less than $8,000 commencing October 1, 1971, to be shared between the Department of National Revenue and the Department of Industry, Trade and Commerce in proportion to the amount owing to each Department. To April 1972, when they were discontinued, payments made in accordance with the agreement reduced the income tax liability to $3.8 million and the development assistance liability to $493,000.

In May 1972 the original controlling shareholders of the Company, who had continued as officers and who had in 1971 gained proxy control of the Company, proposed that the Government should facilitate their bid to regain ownership. While the Government did not accede to this proposal, it did enter into negotiations with these original shareholders and the parent which culminated in the Crown acquiring the parent's 99.8% interest in the Company in July 1972. The consideration for the acquisition was first, approval by the Department of National Revenue to transfer back to the parent for $1 the business which the Company had acquired just one year earlier for an investment of $3.2 million and second, the release of the parent from any obligation to the Crown for debts of the Company. At the time of the acquisition the Company's liabilities, including $4.3 million owing to the Crown, exceeded its assets by $3.2 million.

The Government has, through the Company, entered into a contract with the two original owners to continue in the senior management positions on a salary basis plus 12 1/2% each of the aggregate net profits before taxes.

The Company is not being required to make any payments on the debts due to the Crown totalling $4.3 million. The Departments have been instructed by the Treasury Board to apply the proceeds from the eventual sale of the Company shares against the amounts due to the Crown.

We have been informed by the Deputy Minister of Industry, Trade and Commerce that the Company is to be sold at the earliest opportunity and that in view of this he did not feel it would be appropriate for the Department to recommend to the Governor in Council under section 66 of the Financial Administration Act the addition of the Company to one of the Crown corporation schedules to that Act. The financial statements of the Company for the year ended July 31, 1972, are not yet available.

102. *Failure to record revenues accruing to the Crown.* In 1962 the Department of Supply and Services entered into an agreement with a company to contribute 100% of the cost, to a maximum of $640,000, of the first phase of a three-phase program for the development of tactical radio relay equipment. Subsequent amendments to the contract in 1963 and 1965 provided for sharing the costs of phases two and three of the development and increased the Crown's contribution to a maximum of $4,125,-000, at which level the company's contribution to the work would have been $830,000. To successfully complete the development the company invested a further $2 million and subsequently it received substantial follow-on production orders.

The agreement provided that the company "shall repay to Her Majesty all profits over 15% and one-half of profits up to and including 15% realized from future development or production contracts for tactical radio relay equipment received from foreign governments or contractors up to [$4,125,000] .....". The agreement further provided that the company "furnish Her Majesty with statements certified by its external auditors showing the costs incurred and profits realized on such follow-on contracts." As an alternative to repayment, the agreement provided that the company "may invest such profits in the development of military equipment as approved by Her Majesty to meet the needs of Canada and allied countries."

Although the company had achieved follow-on production sales estimated by the Department to be nearing $100 million by October 1971, it had not complied with repeated requests for the submission of cost and profit statements. No share of profits had been repaid to the Crown and no projects for the investment of profits had been approved by the Crown.

In November 1971 an interdepartmental committee, considering a request by the company for assistance in the further development of its tactical radio relay equipment, deferred its decision pending receipt of a report on the status of repayments with respect to sales resulting from the original development. The company, realizing that its request for additional assistance was unlikely to be approved until the information was provided, submitted an unaudited profit and loss summary in January 1972 which showed profits to March 31, 1971, of $5.4 million on sales of $67.5 million. In an accompanying letter the company stated that by March 31, 1971, it had invested some $4.2 million in the development of military electronic equipment, the alternative to repayment.

The Department of Industry, Trade and Commerce, which is now responsible for development programs, apparently accepted the company's statement that it had reinvested its profits in other programs, ignoring the requirement of the contract that reinvestment required prior approval to qualify. Within the week the interdepartmental committee was advised by the Department that on the basis of a review of the investment position of the company, the Department could enter into a new development project with the assurance that the reinvestment clause had been fulfilled.

Portions of a contractor's profit which accrue to the Crown by reason of the terms of a development agreement are public funds which the Department is obligated to safeguard and account for in the same manner as the other public funds for which it is responsible. In our opinion this was not done in this case because

1. No audit was made or audit certificate obtained to verify the profit figure of $5.4 million reported by the company.

2. No audit was made of the amount of $4.2 million reported by the company as invested in the development of military electronic equipment. There was evidence that $1.8 million of this amount was not new investment but was a cost overrun on the original development contract.

3. The indicated revenue of $2.7 million and its reinvestment were not recorded in the accounts of Canada. This should have been done by crediting revenue with the Crown's share of the profits and charging the appropriation with the same amount, as a contribution to other development programs.

103. *Failure to pursue recovery of Crown's contribution to shared-cost program.* In March 1961 the Department of Supply and Services entered into an agreement to provide assistance to a defence contractor in the development of advanced airborne navigation devices.

The agreement, the administration of which is divided between the Department of Supply and Services and the Department of Industry, Trade and Commerce, provided for:

(a) the Crown to pay a maximum of $5 million being 50% of the approved project costs in the ten-year period ended March 31, 1971;

(b) the first $2.6 million of profits earned on sales of the product developed, to be shared equally between the Crown and the contractor;

(c) the contractor to supply the Crown with statements showing costs incurred and profits realized from follow-on contracts;

(d) the contractor to invest the Crown's share of the profits in future development contracts approved by the Crown. If future development projects are not approved the Crown's share of the profits is to be paid to the Crown.

By March 1971, the end of the ten-year period, the Crown had paid out $4.8 million and the contractor's final report stated that he had achieved direct sales of $34.9 million and indirect sales of $24.5 million with future potential sales of $56 million. Our review of the Department's records revealed that it had not received any statement of costs and profits from the contractor and had not approved any projects for reinvestment.

In our opinion the Crown's interests in this contract have not been protected.

104. *Failure to collect a debt.* The Trade-Industrial Program of the Department of Industry, Trade and Commerce provides for contributions from Vote 10

> To develop and sustain the technological capability of Canadian defence industry for the purpose of defence export sales or civil export sales arising from that capability by supporting selected development programs.... and by supporting the establishment of production capacity and qualified sources for production of component parts and materials.

In 1961 the Department of Supply and Services entered into an agreement to pay a company $288,000 to assist in the development of an improved sonobuoy. The agreement provided that the company would pay to the Crown a portion of the profits realized from the sale of the sonobuoy, and a statement which it provided shows that it owed the Crown $99,000 in respect of profits to 1968.

No attempt had been made to collect this amount and in July 1969 the Department of Industry, Trade and Commerce received Treasury Board authority to contribute 50% of the pre-production costs, up to a maximum of $100,000, to be incurred by the company in establishing itself as a qualified source for the production of two additional types of sonobuoy, the contribution being contingent on the receipt of an export sales order estimated at $1.6 million.

The company was successful in establishing itself as a qualified source and in December 1969 quoted on an export sales order. The foreign government awarded a $1.9 million contract to the company and the Canadian Commercial Corporation; however, because of the company's financial instability and uncertain future, the Canadian Commercial Corporation refused to accept the contract without either a performance bond or a performance guarantee from the company's foreign parent. Neither of these was forthcoming but in March 1970 the company's business assets were sold to a new company (see paragraph 197 of this Report) that subsequently was awarded the contract and was paid the $100,000 in April 1971.

The Department has never attempted to collect the outstanding debt of $99,000 and there is no evidence that it intends to do so.

105. *Questionable administration of contract.* In February 1969 the Department of Supply and Services, on behalf of the Department of Industry, Trade and Commerce, entered into an agreement to assist a contractor to develop and build four prototype direction finders, the work to be completed by September 30, 1970. The agreement provided for a maximum Crown contribution of $478,000 to the cost of the work with the contractor contributing $84,000 plus 100% of any cost in excess of $562,000. The contractor agreed to keep proper accounts and records of his costs and to produce them for audit by the Minister. Although the contractor had claimed (and was paid) the full amount of the Crown contribution by August 1970, he did not demonstrate any prototype until July 1971.

In October 1971 the Treasury Board approved entry into a further agreement to provide assistance to the extent of 50% of the cost since August 1970 of "the development of diversified versions" of the direction finders, to a maximum Crown contribution of $394,000. The submission to the Treasury Board indicated that the specifications of the earlier contract had been met with the exception of one

deficiency, identified when the first prototype was demonstrated in July 1971, which was to be corrected at the contractor's expense.

Our review has indicated the following questionable practices in the administration of this project:

1. Despite knowledge since 1966 that the contractor's procedures have been inadequate to permit the Audit Services Bureau to properly audit his records, all progress claims submitted by the contractor were paid, following certification by the Bureau subject to "verification and necessary adjustment prior to final settlement". The Bureau's subsequent verification resulted in a report, first in February 1971 and again in April 1972, as follows:

   > We are unable to give our opinion as to the audited costs of this contract for the following reasons:
   >
   > (1) Lack of control over some phases of engineering and direct labour.
   > (2) Some commercial costs have been included in the prototype costs.

2. The October 1971 submission to the Treasury Board was incomplete and misleading. The statement that the specifications of the earlier contract had been met with the exception of one deficiency which would be corrected at the contractor's expense, implied that the contractor would meet his obligations under that contract. In fact, he had completed only one of the four prototypes required and he was unable to meet a cost overrun, which he estimated at $190,000 to May 1971. In addition he had advised the Department earlier that if it provided funds for the development of diversified versions of the direction finders, the further development would overcome the one deficiency noted when the prototype was tested; so the Department knew that the deficiency would not be corrected at his expense.

The terms of the new agreement, which were approved by the Treasury Board, effectively relieved the contractor of obligations he had accepted under the 1969 agreement to the extent of one-half of his cost overrun and the additional cost of completing the three other prototypes.

106. *Failure to collect moneys due to the Crown.* In April 1964 the Department of Supply and Services on behalf of the Department of Industry, Trade and Commerce entered into an agreement to assist a Canadian defence contractor in the design, development and fabrication of prototype models of small lightweight transceivers. The total estimated development cost was $2,730,000 of which $230,000 was to be borne by the contractor, $1,000,000 by the United States Air Force and $1,500,000 by the Department of Industry, Trade and Commerce. The Crown made its full contribution, and the development of the transceivers was completed in 1967.

In January 1969 another agreement was entered into to provide assistance by sharing equally the cost to the contractor of the pre-production engineering, tooling and special test equipment required to manufacture the transceivers developed under the previous agreement and an amount of $120,000 was paid to the contractor. Both agreements contained a provision permitting the Minister of Industry, who at that time was carrying out the functions of the present Ministers of Industry, Trade and Commerce and Supply and Services, to direct the contractor under certain conditions to recover on a *pro rata* basis from follow-on production contracts all or

part of the contributions made by the contractor and the Crown under the agreements.

The contractor was successful in selling the transceivers and although the Minister had not directed the recovery of any part of the contributions, three contracts placed through the Canadian Commercial Corporation during the period March 1969 to March 1971 for the sale of 936 sets to a foreign government contained the following provision: "It is agreed that the unit price shown .... herein includes the sum of $150.00 U.S. per radio towards recovery of development and special tooling and test equipment costs as allowed under . . . [the development agreement] and . . . [the source-establishment agreement]". Deliveries were completed in August 1971.

In September 1971 the Department of Supply and Services wrote to the Department of Industry, Trade and Commerce suggesting, "In view of the recoveries already made by the contractor, it may be prudent to make some interim collection pending final audit". In reply the Department of Industry, Trade and Commerce stated:

> It is the opinion of the Branch that . . . [the company] has not been in the position of a "sole source" for equipment of this general class and consequently, no directives have been issued by the Branch for the company to collect monies under the "sole source" provision.
>
> It is our understanding that, should such a directive be issued, the Financial Services Branch, DOITC, would be responsible for arranging the repayment of monies collected by the company.

A departmental audit of the contractor's costs relating to the assistance contracts was completed in September 1972. From the costs reported we calculate the Crown's share of the amounts recovered by the contractor to be $93,500. Neither Department has taken any action to collect this amount from the contractor.

107. *Shared costs under a development contract not verified.* In the years 1966 to 1968 the Department of Industry, Trade and Commerce paid a company $62,500, 50% of the costs incurred in a development program. After receiving repeated requests that a cost submission be prepared, the company indicated to the Audit Services Bureau of the Department of Supply and Services in May 1971 that the basic documents were unavailable. The company has now ceased operations and it is uncertain how this matter will be resolved.

It is a usual provision of cost-reimbursable and shared-cost contracts that claims for progress payments submitted by the contractor must be accompanied by such vouchers, invoices, payrolls and other documents as the Audit Services Bureau may require. To indicate that its requirements have been met, the Bureau certifies each claim as follows:

> Certified that in my opinion this statement is in accordance with the contract, but is subject to verification and necessary adjustment prior to final settlement.

This certification does not state that adequate records exist to support each claim.

A somewhat similar case was referred to in our 1968 Report and subsequent Reports (paragraph 184 in 1971) and after hearing evidence on April 21, 1970, the Public Accounts Committee, in its First Report 1970-71 presented to the House on November 26, 1970, stated:

> As this case is not complete, your Committee reserves its final opinion on this matter pending further inquiry, but expresses the view that the Department or any department should not pay any moneys to any firm or individual unless there are available adequate supporting records of the transaction.

108. *Taxation of recaptured capital cost allowance with respect to vessels sold.* In paragraph 89 of our 1971 Report we referred to the provisions of the Income Tax Act, *R.S. 1952, c.148,* (section 13 of *1970-71-72, c.63*) whereby a company which ordinarily becomes liable for income tax on the excess of the amount realized on the sale of a vessel over its book value (for taxation purposes) may, in lieu of payment of the tax, deposit an equivalent amount with the Department of Industry, Trade and Commerce. All or any part of the deposit may be paid out to or on behalf of any person who, under conditions satisfactory to the Minister of Industry, Trade and Commerce, acquires a replacement vessel or incurs conversion costs before 1974.

We drew attention to a deposit of $2.5 million made by a shipping company in respect of the income tax that would normally have been payable on the proceeds of the sale of a large ocean-going vessel. More than $2 million was subsequently released to other owners of vessels in consideration of the construction and conversion of ships, fishing boats, boom boats, barges, tugs and work boats. Included was $1.6 million paid to Northern Transportation Company Limited, a Crown corporation, of which $1.1 million was returned to the shipping company that had made the deposit.

As the intent of the legislation seems to have been to encourage ship construction or conversion in Canada by means of income tax concessions, we questioned whether the transactions to which we drew attention had this effect. We also noted that Parliament is not provided with a report on the operations under the legislation and on its effectiveness.

During the year a total of $8,639,000, which ordinarily would have been payable as income tax, was deposited with the Department and $4,402,000 was paid out, either to the original depositors or to other persons who had acquired a right to a deposit. The balance held by the Department at March 31, 1972, was $9,007,000 which includes deposits of over $1 million in excess of requirements.

In 1972 Northern Transportation Company Limited entered into another agreement whereby it undertook to purchase for $75,000 the deposits totalling $108,000 which a company had made with respect to the disposal of three vessels. The proceeds of the transaction that accrue to Northern Transportation Company

Limited, $28,000 after payment of agent and legal fees totalling $5,000, are to be used to meet part of the $330,000 cost of converting a vessel owned by it. As the vessel that was converted is frozen in at Inuvik, N.W.T., the registration required for release of the deposits has not yet been completed. We reiterate the question raised last year as to how such a transaction, whereby funds are released to a Crown corporation, has the effect of stimulating ship construction or conversion in Canada.

The effect of these transactions is to forgo income tax that normally would be payable on the excess of the amount realized on the sale of vessels over the book value, although as little as one-third of the funds may accrue to the benefit of the owners of the vessels constructed or converted.

We understand that the Minister of Industry, Trade and Commerce plans to make a report to the House on the operations under the legislation and on its effectiveness.

109. *Payment to Standards Council of Canada.* Section 17 of the Standards Council of Canada Act, *R.S. (1st Supp.), c.41*, reads:

> All amounts required for payment of salaries and other expenses under this Act, including expenses of administration, shall be paid out of money appropriated by Parliament for the purpose.

A number of corporations have a similar provision in their Acts and in fact, identical wording appears in chapters E-1, M-9 and S-5 of the Revised Statutes of Canada which are the governing Acts for the Economic Council of Canada, the Medical Research Council and the Science Council of Canada. Invariably the expenses of these corporations are paid directly from the Consolidated Revenue Fund as a charge to a departmental appropriation. Obviously the meaning of section 17 of the Standards Council of Canada Act should be the same as the meaning of the identical sections in these other Acts, which is that appropriations provided are charged only with the actual expenses paid during the year.

Appropriation Act No. 3, 1971, *1970-71-72, c.46*, includes the following Vote for the Department of Industry, Trade and Commerce:

> 40. Payment to the Standards Council of Canada within the meaning of Section 17 of the Standards Council of Canada Act to be used for the general purposes of Section 5 of the Act, $481,500.

Although it includes reference to section 17 of the Act, the vote text is obviously not drafted in harmony with the meaning of the words of section 17 as they are applied to other corporations. In view of the resulting conflict, it is doubtful that payment of the full amount of the appropriation, $481,500, to the Council was in order.

In last year's Report (paragraph 88) we drew attention to the improper transfer of funds to a suspense account of the Department to be held for the benefit of the Council. As a result $134,000 which should have lapsed at March 31, 1971, remained

in the account. This amount has since been transferred to the Council which at March 31, 1972, had a surplus of $342,000. (See paragraph 410 of this Report.)

As has been pointed out in previous years and again in paragraph 52 of this Report, parliamentary control is seriously weakened when estimates of expenditure are excessive and funds not required for services coming in course of payment during the year are credited to special accounts (or retained by government agencies) to be available for spending in future years.

110. *Ex gratia payment to former public servant.* In June 1968 the Department of Trade and Commerce, through the Public Service Commission, engaged the services of an individual, resident in England, at the Senior Officer level. In July 1968 the Department was integrated with the Department of Industry and the position for which he had been recruited became redundant. Attempts to find other suitable employment for him in the Public Service were made by the Public Service Commission, the Department and the individual himself, but without success. On April 30, 1969, he was advised by letter that his services would be terminated May 31, 1969.

The individual filed with the Fair Employment Practices Branch of the Department of Labour a complaint against Her Majesty with respect to his termination, alleging ethnic discrimination.

The law officers of the Crown expressed concern with regard to the procedure followed in rejecting the employee on probation and stated that it should not be assumed that action against the Crown would fail.

An inquiry into the individual's complaint resulted in an agreement, tabled in the House on June 17, 1971, whereby the individual withdrew his complaint and the Crown made an *ex gratia* payment of $22,000 covering six months salary, moving expenses to England and costs incurred by the individual in prosecuting his complaint.

111. *Lack of co-ordination, planning, quality control and effective marketing in government publishing.* In our 1965 Report (page 186) we commented on the operation of the government bookstores as follows:

> The inventories of publications held at the government bookstores at March 31, 1965 were estimated at $264,000 on a retail value basis. Departmental attempts to reconcile the value of the publications in each store with the memorandum control account maintained at headquarters reveal that present controls are inadequate and would neither prevent nor detect accounting errors and theft of books. A review of departmental inventory audits has disclosed substantial overages and shortages of physical stocks each year. No remedial action has been taken in most instances, except to adjust the headquarters memorandum control account in order to reflect the physical counts made at the bookstores during the audit. There is no dollar value inventory control account for publications maintained at the bookstores.

> To correct this situation the bookstores must be brought under proper control and the managers held responsible for discrepancies. Our views regarding this unsatisfactory situation have been made known to the Department [of Public Printing and Stationery].

There has been no improvement in the intervening years, during which the operation has been transferred to the Department of Supply and Services with responsibility divided between Information Canada and the Supply segment of the Department. The inventories of publications held at the bookstores have increased to an estimated $690,000 on a retail value basis at March 31, 1972. Additional stocks with an estimated retail value of $6,600,000 at March 31, 1972, are held in a warehousing distribution centre.

In those intervening years we have repeatedly drawn attention to this situation and to the need for effective planning in the printing of government publications. Our Reports have also referred to:

1. the inadequacy of financial controls for the protection of the Crown against loss;
2. the need to have procedures available for the timely introduction of promotional campaigns and price adjustments designed to recover the maximum amount from sales and keep storage costs to a minimum;
3. instances of losses on individual publications;
4. instances of excessive stocks of individual publications on hand;
5. the disposal, mainly as scrap paper, of three million copies of publications with a retail value of about $2.5 million; and
6. the fact that there had been 15 studies on the printing and publishing activities of the Government since the Royal Commission on Government Organization presented its report on this subject in 1962.

Because there is no quantitative control over stock items, it is not possible to establish whether sales processed at the various sales outlets are properly accounted for.

During the final two weeks of April 1971 orders amounting to $5,500 were shipped without being invoiced. Apparently the order forms were returned with the shipments. Included were orders of $4,100 shipped on a credit basis which, because of the failure to prepare invoices, could not be charged to the customers concerned.

The records indicate that the accounts receivable totalled $243,000 at March 31, 1972. Some of these accounts are held in an "unpaid file" while others are recorded in a computer. The system is completely inadequate; an age analysis cannot be prepared, and the credit position of individual accounts cannot be readily determined. Furthermore, there are no procedures for the collection of accounts that fall into arrears. Only on two occasions were attempts made to collect overdue accounts and these were in the last quarter of the year.

During the year an additional study was carried out relating to the development of an integrated inventory and management information system. This study revealed many problems: the processing of orders was too slow and expensive;

individual operations were repetitive and did not provide adequate records for management information; poor control of stock levels made publishing decisions difficult; and a basically manual system relying too heavily on skilled staff made it difficult or impossible to expand the inventory system to cope with the Department's growing needs.

In February 1972, an attempt was made to correct the shortcomings and 33 temporary employees were hired under the Government's winter works program to assist in the implementation of the study recommendations. Five weeks later the project was cancelled when the Department realized that it was attempting to provide unnecessary information at exorbitant cost without producing the required inventory control, including current balances, re-order points and quantities on hand.

A manual inventory control system was partially implemented for the warehousing distribution centre during the year. Of some 60,000 stock items of Canadian publications, approximately 15,000 were physically counted and recorded. There was no record of, or control over, the remaining 45,000 items and some 15,000 items of international publications at March 31, 1972.

It is difficult to understand why, after 16 studies over a period of 10 years, so little progress has been made. However, it seems obvious that the problems are not going to be solved without practical outside assistance. We would suggest that a top management team, perhaps from the publishing industry, be drafted to introduce and operate adequate systems of cost and inventory control and accounting to ensure that both the capital employed and the revenue produced are protected.

112. *Examination of Canada Manpower Centres and Regional Offices.* In previous Reports (paragraph 91 in 1971) we have commented on weaknesses in internal control disclosed in our examinations of Canada Manpower Centres and Regional Offices. These matters had been brought to the attention of the Department of Manpower and Immigration and amended procedures had been issued correcting many of the weaknesses and the remainder were being studied.

Of the 447 Canada Manpower Centres, 15 which administer approximately 28% of the Department's program expenditure were examined by us during the year. As in prior years we reported to the Department that there were weaknesses in the determination of eligibility for, and the payment of, occupational training allowances, manpower mobility grants and adjustment assistance to immigrants.

113. *Inadequate liaison between the Department of Manpower and Immigration and the Unemployment Insurance Commission.* In previous years (paragraph 92 of our 1971 Report) reference was made to the inadequacy of the liaison between field offices of the Unemployment Insurance Commission and the manpower centres of the Department of Manpower and Immigration. We commented that the weaknesses in these procedures, which were disclosed by our review of these offices, had resulted in a

substantial drain on the resources of the Unemployment Insurance Fund. In our 1971 Report we stated that new liaison procedures designed to improve the administration of unemployment insurance were introduced in October 1970 but that subsequent examinations disclosed that weaknesses still existed.

Examinations during the year indicated that liaison between the offices of the Commission and the Canada Manpower Centres had improved. Furthermore, the powers, duties and functions of the Minister of Labour under the Unemployment Insurance Act, 1971, *1970-71-72, c.48,* were transferred to the Minister of Manpower and Immigration effective January 28, 1972.

114. *Contributions in respect of expenditure by the provinces on training facilities.* In order to accelerate the phase-out of the federal program of contributions to capital expenditure by the provinces (and the territories) on vocational training facilities, agreements were entered into with the provinces whereby contributions would be made in 1970-71 and 1971-72 in respect of expenditure by the provinces in the years 1970-71 to 1974-75 inclusive. A condition of the agreements is that the provinces report by April 30 of each of the years 1972, 1973, 1974 and 1975, listing the training facilities for which funds were spent during the immediately preceding year and giving the amounts of the expenditure on each project.

In paragraph 94 of our 1971 Report we detailed the amount paid to each of nine provinces and one territory, totalling $108 million, and stated that, as contributions were being made prior to construction of the facilities, the payments were for the most part interest-free loans to the provinces. We also mentioned the possibility that the provinces might not construct all of the facilities for which Canada has made a contribution because the examination of claims by the Audit Services Bureau of the Department of Supply and Services was discontinued when the accelerated phase-out was initiated, and adjustments arising from previous examinations that had not already been offset against claims were ignored.

During the year the balance of the entitlement of the provinces and territories was paid, as follows:

Quebec	$ 28,502,000
Manitoba	12,732,000
British Columbia	12,601,000
Saskatchewan	7,701,000
New Brunswick	4,897,000
Nova Scotia	4,148,000
Newfoundland	4,130,000
Prince Edward Island	878,000
Northwest Territories	489,000
	$ 76,078,000

The comments made last year with respect to interest-free loans and lack of an audit of claims still apply. Furthermore, notwithstanding the requirement under the

agreements that reports of expenditure by the provinces on training facilities in the previous year be submitted by April 30, 1972, proper reports have not been received from the Provinces of Newfoundland, Prince Edward Island, Quebec, Manitoba or Saskatchewan, or from the Northwest Territories.

115. *Local Initiatives Program.* Manpower and Immigration Vote 10 provided $125 million for payments to municipal and other public bodies and community organizations and private groups with respect to projects undertaken by them for the purposes of providing employment to unemployed workers and contributing to the betterment of the community. This Program, known as the Local Initiatives Program, was announced in the House of Commons on October 27, 1971.

At March 31, 1972, 5,672 projects had been approved, on which $83,716,000 was disbursed during the year.

The principal objective of the Program was the creation of additional jobs between November 1971 and May 1972 (later extended to November 30, 1972), and persons hired by project sponsors were to be drawn first from the unemployed through Canada Manpower Centres. The objective was to be achieved through innovative and imaginative projects to provide new facilities and services for the benefit of the community as a whole. Participation of municipalities, community groups and unemployed individuals in the development and management of the projects was invited.

Guidelines for the Program included the following:

—projects were to be capable of being put into effect quickly so that the main employment impact occurred within six months after November 1, 1971;

—projects should provide at least 30 man-months of work in employment which would not normally be available during the winter (this was later reduced to 15 man-months);

—projects should contribute to community betterment and be of a basically non-profit nature;

—projects should create additional employment without having an inflationary effect or imposing unacceptable additional costs on others;

—project sponsors were normally expected to hire unemployed workers through Canada Manpower Centres;

—periodic reports were to be submitted throughout the duration of the project to permit evaluation;

—all government regulations were to be complied with and projects were subject to audit; and

—in the case of municipalities, the concurrence of the appropriate provincial or territorial government was required.

The amount of financial support was related directly to labour and other costs of the project. For labour the contribution was based on the level of prevailing wages and the skills required in each project but was not to exceed an average of $100 per man-week. For other costs an additional amount up to 17% of the amount provided

for labour costs could be provided. The maximum amount of federal financial support for a project was not to exceed $500,000.

Our test examination of project records and Audit Services Bureau reports on completed projects disclosed the following:

1. Extensions to the Program from May 31 to June 16, to September 30 and then to November 30, 1972, substantially altered it from a winter job-creating program to one of continuing employment aid.

2. Contributions were made to projects in circumstances where improvements to privately-owned property were being financed in whole or in part from funds provided under the Program. The following are examples:

    (a) Approval was given to a contribution of $146,000 towards the estimated cost of $315,000 for the establishment of an equestrian centre at Laval, Que. The proposed site was owned by the municipality and the development included the erection of a stable. The project was later moved to Verchères, Que., because of alleged difficulties in securing the original site, although the application stated that the sponsors had a 62-year lease from the Municipality of Laval. The new site, leased from a corporation at an annual rental of $24,000, was originally an equestrian centre but the existing facilities were in a state of disrepair. There are two other riding academies in the area. Although Program officials recognized that the change of location, which had taken place without their approval, had fundamentally changed the project, they allowed it to continue because 90 workers had been hired and considerable money already spent.

    (b) Contributions totalling $825,000 were approved for two projects to develop outdoor recreational facilities at St. Damase and Estcourt, Que. In each case the project was sponsored by a non-profit corporation. There are no provisions in the agreements with the sponsors with respect to disposal of assets in the event that the corporations surrender their charters. As one corporation has only six members and the other ten, substantial gains could accrue to the individual members.

3. A number of projects, particularly those of municipalities, were accepted because the work was to be done in the winter rather than in the summer and manpower was to be used rather than equipment, in order to help alleviate high winter unemployment. In some cases the projects were delayed and then carried out with the use of equipment. For example, a project of the City of Portage la Prairie, Man., was not started until April, nearly four months after the proposed starting date.

4. A contribution of $74,900 was made towards the cost of $1,222,000 for construction of additional seating for a stadium in Winnipeg, Man. This project would probably have been carried out without assistance from the Program. An audit of the records of the project was impractical in terms of isolating man-weeks worked or wages paid, because of the difficulty of isolating labour expended on the Program portion of the construction. In this and other community sponsored projects the personnel were not recruited through Canada Manpower Centres.

5. Some project workers were self-employed, such as farmers and fishermen, while others were full-time students. Several instances were noted where individuals received wages from projects while employed elsewhere on a full-time basis. Several community projects received donations in the form of return of wages from the project employees. In the earlier stages of one project, wage receipts were pooled by common consent to the extent of about $3,000. These funds were used for the purchase of technical recording equipment and studio furnishings necessary to

carry out the project. The payment of wages under these circumstances contributes little to the benefit of the unemployed.

6. Many project sponsors were inexperienced at managing a businesslike venture requiring accounting records and compliance with employment regulations. For example, one project was assessed $113 in interest and penalties by the Department of National Revenue because of late remittance of employee payroll deductions. Numerous instances were noted where attendance records were inadequate and supporting documentation for expenditures was not available.

7. Some projects did not provide the minimum requirement of 15 man-months of work.

8. On several projects, fraudulent and irregular practices required investigation by the R.C.M.P. Several individuals have been convicted on charges of fraud and other cases are pending.

116. *Defalcation by a departmental employee.* During 1969-70 a major requirement for French language tests was recognized by the Manpower Division of the Department of Manpower and Immigration, in order that French speaking clients could be offered the same level of service as English speaking clients. As the Department had insufficient bilingual capability for the purpose and was unable to recruit suitable staff, three contracts for aptitude testing were entered into with a psychologist and his associates at the University of Montreal late in 1970. In the following 18 months 60 testing contracts amounting to $93,400 were drawn up by the Head of the Client Testing Section and approved by departmental officers. All contracts took the form of simple letters of agreement outlining the services to be performed and the fees to be paid. Late in 1971 departmental staff, in a routine examination of contracts, questioned the number of these contracts and whether departmental authority which is limited to $5,000 was being exceeded. However, it was contended that each of the contracts, which ranged in amount from $200 to $4,500, constituted a separate independent undertaking.

In February 1972 we also questioned the authority for the contracts and drew attention to the lack of internal control resulting from the fact that cheques in payment of the contracts were being sent to the Head of the Client Testing Section who originated the contracts and received and approved the material called for in the contracts. Shortly thereafter, when the Department discovered that the departmental employee had also requested that the Income Tax Form T4A showing the amount paid to the psychologist for 1971 be sent to the Section, an investigation was undertaken which disclosed that in the case of 52 contracts, the acceptance of the contract and the endorsement of the cheques had been forged and that the employee had fraudulently obtained $77,950. The employee was prosecuted and sentenced to four years in penitentiary and ordered to repay the amount of the defalcation.

117. *Cost of the National Arts Centre, Ottawa.* In previous Reports (paragraph 95 in 1971) we have referred to the substantial increase from $18,223,000 to $46,426,000 in the estimated cost of construction of the National Arts Centre, and the exclusion

of the Centre itself from the recorded assets of the National Arts Centre Corporation.

During the year a further $175,000 was charged to costs and a final certificate of completion was issued by the Department of Public Works. Total costs of the Centre, exclusive of land, to March 31, 1972, amount to $46,348,000. A balance of $71,000 in Secretary of State Vote 2b of 1968-69 remains available to meet miscellaneous additional costs.

During the year the Department of Public Works purchased from the National Capital Commission a small additional piece of land for the Centre, at a cost of $247,000.

The Centre itself is still not included among the assets of the Corporation. It is rented from the Crown under a twenty-year lease, the Corporation being responsible for maintenance and operation of the building. The Corporation is not required to pay rent nor to provide for interest and depreciation charges. Consequently, the accounts and financial statements of the Corporation do not reflect the complete cost of operating the National Arts Centre. (See paragraph 405 of this Report.)

118. *Unrealistic meal charges to Canadian Forces personnel.* In previous Reports (paragraph 101 in 1971) we have pointed out that the revised pay structure established for the Canadian Forces in October 1966 was formulated on the concept that remuneration should be based on skill and responsibility, as is the case in industry, and that the subsidies inherent in the older pay structure should be removed. In keeping with this concept, the Department of National Defence introduced monthly charges for daily rations, which subsequently were increased in June 1968 to $56 for an officer and $46 for a man, except that while a man is serving on a ship or in the field or at other locations designated by the Chief of Defence Staff, the rate is $36. We further noted that the Department calculates the average purchase cost of unprepared rations but does not compile the costs of transportation, warehousing, preparation and serving of meals, and other related expenses although these could represent a large part of the overall cost. We cited the results of our examinations at various messes which revealed in every instance that the cost of food and the salaries of the kitchen and dining room staffs alone exceeded the total amount charged the servicemen. We expressed the view that as prerequisites to the establishment of reasonable charges, it was essential that the costs of providing the service be determined and a policy established to ensure that the cost is recovered to the maximum extent possible. Until this is done, there is a continuing subsidy which is contrary to the principles underlying the pay structure. We also noted that the Department was attempting to formulate a firm policy on the retention or closure of uneconomical small messes. There was within the Department considerable opposition to the curtailment of messing facilities and the removal of any subsidies inherent in the current charges for rations.

For the year ended March 31, 1972, the Department recovered about $8.3 million from meal sales and charges for rations provided to members on ration strength. The unrecovered cost amounted to $8.8 million, an increase of almost $1 million from the previous year. The portion of this excess applicable to meals which a commanding officer is authorized to provide free of charge to kitchen and dining room staff, certain members of the Reserve Force, recruits and in certain circumstances to various servicemen and civilians, cannot be readily determined as units are not required to report on free meals issued. The following comparison of unrecovered cost for the past five years indicates a continuing upward trend:

Year	Cost of food	Recoveries	Unrecovered cost Amount	%
1967-68	$ 16,866,000	$ 12,856,000	$ 4,010,000	23.8
1968-69	16,100,000	10,447,000	5,653,000	35.1
1969-70	16,809,000	10,851,000	5,958,000	35.4
1970-71	16,905,000	9,083,000	7,822,000	46.3
1971-72	17,060,000	8,275,000	8,785,000	51.5

Effective January 1, 1972, with the approval of the Treasury Board, the monthly charges for rations were reduced to $50 for an officer and $41 for a man, except that while a man is serving on a ship or in the field or at other locations designated by the Chief of the Defence Staff the rate is $33. The new rates incorporate a standard abatement for absences from the mess for periods of 48 hours or more, in place of abatements when actually absent for periods of seven days or more, the change from actual to standard abatement being introduced to reduce administration.

In November 1971 the Department defined its policy on small messes as follows:

> unless there is a clear overriding justification individual small food services operations will not be retained nor established in the future where it can be determined that the provision of food services at public expense is uneconomic.

A departmental cost analysis of messes having an average ration strength of less than 17 had identified 33 as being uneconomical to operate. The Chief of Defence Staff directed that 25 of these messes be retained for various reasons and eight others be closed. By September 1972, six of these messes had been closed.

As stated in paragraph 185 dealing with eating facilities for Crown employees in public buildings, we drew the attention of the Secretary of the Treasury Board to this problem in October 1972 because effective management action was long overdue. In stating that recommendations would be presented by the Treasury Board Secretariat to the Treasury Board early in 1973, the Secretary of the Treasury Board added that the review of meal charges at that time would cover Crown employees generally, including Canadian Forces personnel.

119. *Subsidization of non-public fund activities.* In previous Reports (paragraph 104 in 1971) we have referred to the subsidization by the Department of National Defence of non-public fund activities amounting to $10.7 million annually, to the Department's proposal to determine the cost of the subsidization at each Canadian Forces base and to a departmental policy calling for a reduction of approximately $5 million or 47% in its annual cost. Implementation of this proposal was planned over a three-year period, so that it would be fully effective in April 1973.

The Department undertook to report annually to the Treasury Board the extent to which non-public fund activities have been subsidized and to submit to the Board the results of a study to be completed on the extent to which recreational facilities should be provided from public funds. We noted last year that neither the annual report nor the study on recreational facilities had been completed.

In January 1972 the Department advised the Treasury Board that the subsidization of resale activities and messes had been substantially reduced over the past year, the estimated cost figures for the past two years being:

	1971-72	1970-71
Personnel	$ 6,324,000	$ 9,274,000
Accommodation	1,048,000	1,110,000
Transportation	167,000	unknown
Communications	18,000	16,000
	7,557,000	10,400,000
Less: Recoveries	283,000	168,000
	$ 7,274,000	$ 10,232,000

The extent of subsidization cannot be determined from the Department's accounting records so we are not in a position to verify the information provided to the Treasury Board. However, a number of departmental reports on non-public fund activities indicate that the personnel costs reported for the two years have been understated. Relevant costs for both years were based on an average salary cost of $8,500 per man-year, a rate determined in December 1969 which does not reflect any subsequent salary increases. The report indicated that personnel employed in non-public fund activities on a full-time basis had decreased from 1,091 in 1970-71 to 744 in 1971-72. Sixty-one positions in Ottawa and overseas were not included in the reported figures, but even after adjusting for these omissions it is difficult to reconcile the 1971-72 total of 744 employees with various personnel establishment totals in the 900-950 range disclosed by internal departmental reports. In addition the cost of personnel provided on a part-time basis was not included.

The Department has prepared three new draft policy papers with respect to public support for messes, resale outlets, and physical education and recreational facilities but is still not in a position to submit to the Treasury Board its study of the extent to which recreational facilities should be provided from public funds.

120. *Subsidization of dental services provided to dependants.* The Department of National Defence provides dental services to dependants of service personnel and other civilians at designated locations. In paragraph 102 of our 1971 Report we pointed out that up to July 1968 the Department had been charging rates similar to those charged by the Department of Veterans Affairs but from that date on had delayed the implementation of increases thereby subsidizing the cost of dental services to dependants. In April 1969 the Treasury Board noted this and stated that the general policy was to charge commercial rates for services where they could be determined, and that as military personnel receive pay comparable to that of their civilian counterparts, they should also bear the same costs as civilians in respect of dental care for their dependants. Departmental regulations were revised in January 1970 giving immediate effect to a 35% increase in the charges and providing for a further increase of 30% on April 1, 1970, and the adoption after March 31, 1971, of the charges set out in the provincial dental association fee schedules. However, because of the Government's policy of voluntary price restraint in effect from February to December 1970 the last two increases were cancelled and the Department had made no subsequent submissions.

The schedule of fees in respect of these dental services remained unchanged during 1971-72. Fees charged during the year totalled $119,000 of which $73,000 was in respect of services provided in the Province of Alberta. The Department did consider but rejected the adoption of the provincial schedules of fees in April 1971, at which time it estimated that adoption of the Alberta fee schedule would result in an increase of 68% in fee revenue.

In June 1972 the Department proposed to the Treasury Board that the Civilian Dental Treatment Regulations be replaced by new Regulations providing that the fees to be charged shall be those set out in provincial dental association fee schedules. This proposal was accepted and the new Regulations came into effect on August 27, 1972.

121. *Internship salaries improperly retained by Canadian Forces medical officers.* For many years the Department of National Defence has operated a Medical Officers Training Plan under which medical students are enrolled in the Canadian Forces as second lieutenants with promotion to lieutenant on the date they commence internship. As officers, they receive from the Department the pay prescribed for their rank. In 1960 the Department learned that certain civilian hospitals at which officers were serving their internships were paying them salaries in addition to their Service pay, and the Judge Advocate General concluded that the additional salaries must revert to the Crown. The Department subsequently advised the hospitals in 1960 and at regular intervals thereafter that they were neither expected nor required to pay additional remuneration to Service medical officers. The interns were similarly advised that Department of National Defence policy of long standing required that any payment they received from a civilian institution while attending internship, residency or other training be remitted immediately to the Receiver

General and that retention of payment in these circumstances constitutes an offence under the National Defence Act.

Apparently these measures were not successful because this matter was considered by the Advisory Committee on Hospital Insurance and Diagnostic Services in May 1964 with particular reference to the possible inclusion of such remuneration in hospital operating costs in which Canada shares under the Hospital Insurance and Diagnostic Services Act, *R.S., c. H-8.* It was then agreed that the Department of National Defence would promulgate a regulation prohibiting interns from accepting pay from the hospitals. Such a regulation was promulgated six years later in May 1970, under the authority of the National Defence Act, *R.S., c. N-4.*

Notwithstanding these and other measures, a number of interns continued to receive and retain salaries paid by various civilian hospitals. After the Department became aware of further irregularities in 1970, it determined that 35 interns had received remuneration from hospitals totalling $110,000 for the 13-month period ended July 31, 1971, and took steps to recover this amount from the individual officers. However, no attempt has been made to ascertain remuneration paid to interns by hospitals in prior years. The number of officers completing internship training annually under this Plan in recent years has ranged from 36 to 73.

In March 1972 the Department became aware that interns in another hospital had received additional remuneration between July 1971 and February 1972. The Department has established that a total of $4,000 was received in this period by three officers and action has been taken to recover these amounts as well.

We have inquired as to the authority relied on for providing the services of interns without charge and have been advised that the Department does not consider that a chargeable service is being performed and that the training is arranged for the ultimate benefit of the Department, not the hospital. The fact remains that in the case of civilian interns the benefit is for the individual but the hospital apparently also receives a benefit as is evidenced by its willingness to pay its interns. If the Department, which pays its interns a larger salary than is paid by a hospital, were to require the hospital to pay to it the normal salary of an intern, there would be no question of a medical officer retaining any amount improperly.

122. *Cost incurred in terminating term employment.* A term employee of the Department of National Defence was advised in 1967 that his appointment would not be renewed at the conclusion of its term. He requested the reasons and was advised that he was not progressing rapidly enough in improving his qualifications.

The employee then filed grievances but each grievance was denied. The employee was not satisfied and brought pressure to bear with the result that the Department undertook to set up an Inquiry under Part II of the Inquiries Act, *R.S., c. I-13.*

The Commissioner observed that, despite the strictly legal position that might be taken to the effect that a term appointment ends automatically without notice

being required, the Department had not been adhering strictly to the terms of governing Public Service legislation.

The Commissioner recommended that the employee be reimbursed for counsel fees and other expenses and compensated for the effect that the pursuit of his grievance had had on his subsequent employment opportunities. The employee was paid $15,000 on an *ex gratia* basis and the costs of the Commission of Inquiry amounted to $63,000 bringing to $78,000 the known cost of terminating this term employment.

123. *Delay in removing unsuitable transport operator.* In November 1969 a vehicle of the Department of National Defence driven by a service member collided with a privately-owned automobile fatally injuring the driver of the automobile and injuring his passenger. The service member and a passenger in the departmental vehicle were also injured.

In April 1969 the service member had been recommended for release because he was considered totally unsuitable for the trade of transport operator, his driving proficiency and habits were very poor and he was unsuitable for remuster to another trade. Successive appeals to the Base Commander, Command Headquarters and the Chief of Defence Staff had been denied. Two months before the accident a further appeal had been submitted for consideration by the Minister of National Defence but, at the time of the accident, this had not been placed before the Minister.

A charge of causing death by criminal negligence was laid against the service member and he was found guilty and sentenced to imprisonment for two years less a day.

In the meantime the appeal to the Minister against release had been denied and the service member commenced terminal leave in April 1970.

As a result of this accident, claims were lodged against the Crown one of which resulted in an award of $10,000 to the injured passenger in the automobile. A further claim is pending. Legal costs and expenses incurred during the year amounted to $2,900 and repairs to the departmental vehicle, $2,600.

124. *Overpayments to members of the Canadian Forces not recovered on their release.* In paragraph 99 of our 1971 Report we stated that 461 former members of the Canadian Forces owed the Department of National Defence $84,000. The individual balances arose mainly from departmental administrative errors and from claims by members for allowances to which they were not entitled. We provided information as to the various categories of accounts, and summarized recommendations we had made to the Department.

At March 31, 1972, there were 624 accounts totalling $86,400, with balances ranging from a few cents to over $5,800. These included $61,300 owing by 386 annuitants, over 84% of whom had been released during the year. All but $10,100 of

this is expected to be repaid before 1980, but the final instalment is not due until the year 2001. Of the remaining 238 accounts which are not secured by annuities, 94 accounts totalling $7,300 were considered to be current by the Department although no payment had been received on 26 of them during the ten-month period ended July 31, 1972, and 22 were deleted subsequent to the year-end; 38 accounts totalling $9,400 had been referred to legal officers and 106 accounts totalling $8,400 to which the Crown does not have a legally enforceable claim were held in "suspense". During the year the Department deleted from its accounts debts totalling $16,100 owing by 288 members.

In response to our recommendations the Department has introduced procedures to facilitate recovery of balances owing, from either the member's pay or terminal benefits. Further, we understand that action has been initiated to obtain an amendment to the Canadian Forces Superannuation Regulations to increase the rate of recovery from an annuity payable to a member who has either fraudulently obtained or knowingly accepted overpayments of pay and allowances.

125. *Excess fees paid to retired public servants and members of the Canadian Forces employed by the Department of National Defence under personal service contracts.* Under Government superannuation plans provision is made for a reduction in the annuity or annual allowance being paid to a retired public servant or member of the Canadian Forces or the Royal Canadian Mounted Police, should he be re-employed by Canada. In order to be consistent, when such individuals enter into a contract with the Crown for their services, the Treasury Board has provided the following guideline for the calculation of fees under the contract:

> In respect of any period of three months, commencing on the first day of January, April, July or October in any year, the fee under the contract when combined with the annuity or annual allowance must not exceed three times the current monthly salary for the classification held by him at retirement.

A test audit of fees paid by the Department of National Defence to retired public servants and members of the Canadian Forces who have been employed under contract, disclosed that in respect of three contracts, two with retired public servants and the other with a retired member of the Forces, the fees together with annuities received exceeded the current salaries for the classifications held at retirement by $19,000 in 1971-72 and by $13,000 in 1970-71. Each of these contracts called for services that were essentially the same as the individuals had performed immediately prior to retirement. Two of the contracts were entered into with the individual, the third with a partnership consisting of the retired member and his wife which called for the services of the retired member on a full-time basis.

We also noted that in 1970-71 the retired member of the Canadian Forces had been paid $1,040 for services provided under contract in a short period while he was on annual leave from, and being paid by, the Canadian Forces and a further $12,000 while he was on retirement leave. He thus received double remuneration in this period of about seven months.

126. *Questionable pension awards under "Plan Restore".* In our 1971 Report (paragraph 98) we referred to "Plan Restore" which was introduced in April 1970 by the Department of National Defence with the approval of the Treasury Board Secretariat to reduce the strength of the regular force by 2,175 men in nine trades in which a surplus was forecast for 1973. While no man was required to leave his trade, all were given an opportunity to indicate their willingness to be released to promote economy or efficiency. In addition, men with a rank of corporal or below, and with six or more years to serve before reaching compulsory release age, were invited to apply for remuster to one of a number of trades in which openings existed.

By September 1, 1972, 326 men had been remustered to new trades and 1,182 others had been released under the Plan. Of these, 808 between the ages of 27 and 40 are receiving immediate annuities ranging from $807 to $3,849.

Under the Canadian Forces Superannuation Act, *R.S., c. C-9,* an annuity cannot be paid to a contributor with less than ten years service in the regular force while a contributor with longer service is entitled to an annuity as follows:

Reason for retirement	Minimum years of service	Type of annuity
Age	10	Immediate annuity
Disability	10	Immediate annuity
Economy or efficiency	20	Immediate annuity
	10	With the consent of the Treasury Board, an immediate annuity reduced until age 65 by 5% for each full year up to 6 by which his service is less than 20 years or his age is less than the retirement age applicable for his rank, whichever is the lesser
Misconduct	10	With the consent of the Treasury Board, the whole or part of any annuity specified by the Board to which he would have been entitled had he been retired to promote economy or efficiency
Other reasons—		
Officer	20	Immediate annuity reduced by 5% for each full year by which his age is less than the retirement age applicable for his rank
Man	25	Immediate annuity
	20	Immediate annuity reduced by 5% for each full year by which his service is less than 25 years or his age is less than the retirement age applicable for his rank, whichever is the lesser

Releases under "Plan Restore" relied on section 10(3) of the Act which provides benefits for a contributor who is compulsorily retired from the regular force to promote economy or efficiency. We stated last year that the release of men under "Plan Restore" would undoubtedly promote economy or efficiency, the men being surplus to requirements; however, we found it difficult to reconcile the word "compulsorily" with the alternatives offered.

Subsequent changes in Force structure have reduced the anticipated saving in personnel costs. In January 1972 the Department estimated that it will require 154

additional men in four of the nine "Restore" trades. A total of 393 men had left these trades, 340 by release and 53 by remuster. New recruits are now being accepted into these and other "Restore" trades and 11 men who remustered to other trades had returned to their original trade by October 1972.

127. *Lack of verification of continuing eligibility for Service annuities.* In paragraph 100 of our 1971 Report, we drew attention to the lack of verification of continuing eligibility for some 35,000 Service annuities paid under the Canadian Forces Superannuation Act, *R.S., c. C-9*, and the Defence Services Pension Continuation Act, *R.S., c. D-3*. Payments in 1971-72 totalled $106 million. We expressed the view that periodic confirmation of eligibility is essential as a check on the possibility of payment being continued after an annuitant dies, a widow remarries, a child reaches maturity or a pensioner is employed in the Public Service, and pointed out that the obtaining of life certificates has always been a requirement in most Commonwealth countries.

The Department of National Defence has agreed that a requirement exists to periodically confirm the eligibility of annuitants and has discussed this matter with the Pensions and Insurance Division of the Treasury Board Secretariat.

In November 1972 the Secretary of the Treasury Board informed us that he agreed that the eligibility of recipients should be examined periodically and was endeavouring to promote a co-ordinated approach by those handling the detailed administration of the three main Superannuation Acts. He was then awaiting the results of a re-examination of procedures followed by the Department of Supply and Services in verifying the continuing eligibility of annuitants under the Public Service Superannuation Act and other pension plans covering former members of the federal public service.

128. *Prolonged development of the Canadian Forces Pay System.* In previous Reports (paragraph 107 in 1971) we have drawn attention to the development by the Department of National Defence of a new Central Computational Pay System to replace the three separate pay systems which were in use for members of the Canadian Forces prior to integration. We noted that the prolonged development period had resulted in substantial escalation of development costs, and that, for the time being, a weakening of internal control had occurred. In a submission to the Treasury Board in October 1965 the Department stated that among other benefits it expected annual savings of $800,000 in administrative costs once the computerized pay system was fully operational. The development costs for the proposed system were estimated at $775,000. The new system was to be introduced in two phases. In Phase I, which began on July 1, 1967, the records maintained in Ottawa for control and audit purposes were replaced and in Phase II the pay records maintained for each member at his unit were being eliminated. Departmental statistics for April 1971 disclosed that 12% of the individual pay accounts in Ottawa showed amounts for net monthly pay entitlement that were different from the amounts shown in the

accounts at the units and it appeared that 15% of the differences were a direct result of Central Computational Pay System errors. We concluded that the system continued to be in a developmental posture and that it had not effectively replaced the records previously maintained in Ottawa for control and audit purposes.

At March 31, 1972, the system had still not been fully implemented. The Department completed Phase II in respect of 3,000 individual pay records in September 1971, an additional 11,500 in December 1971 and a further 37,000 in February and March 1972. At the year-end approximately 51,500 records, or 62% of the pay records previously maintained for members at their units, had been eliminated. However, there had been no reduction in pay staff at the local units. Phase II was completed in October 1972.

The Department's accounts do not provide a record of the cost of development; however, the overall cost of the Central Computational Pay System amounted to about $11 million for the period July 1967 to March 1972. The separate records maintained at Ottawa for control and audit purposes and for the accumulation of pension and income tax data have been discontinued at a saving of about $2.8 million in this period, and the new system now appears to have effectively replaced them.

We have been informed that in July 1971 the Department discontinued compiling statistics on differences in net monthly pay entitlement between the individual pay accounts in Ottawa and at the units. However, based on a limited test of information assembled by the Department in February 1972 we conclude that the net monthly pay entitlements recorded in the new system were more accurate than in 1971. On the other hand our test disclosed a substantial number of differences in the balances outstanding on individual pay accounts, about 9% of which are the result of errors in the computerized system.

As the system was not fully implemented until October 1972, the anticipated annual savings of $800,000 did not materialize in 1971-72.

129. *Irregular charge to appropriation.* The Department of National Defence is administering the construction of a NATO fleet communication system for the Western Atlantic on behalf of the North Atlantic Treaty Organization. Funds required are estimated semi-annually and withheld from Canada's contributions to NATO which are charged to National Defence Vote 25. The amounts withheld are credited to a trust account from which administrative expense and contract payments are made.

During the year funds held by the Department for this project appeared to be in excess of the amounts required to meet current project commitments and NATO requested the Department to reduce the balance by a series of payments to it. However, when payment to NATO of $502,800 became due on March 31, 1972, there was only $323,000 in the trust account and the Department considered that this amount should be retained to meet anticipated payments on contracts. Nevertheless,

as the Department had undertaken to remit the $502,800 to NATO, it was paid and improperly charged to National Defence Vote 25.

This irregular charge to the appropriation prevented $502,800 from lapsing in accordance with section 30 of the Financial Administration Act. Furthermore, the balance of $323,000 in the trust account at March 31, 1972, is not correct, as no liability existed at that date. The payment of $502,800 had fully discharged this liability and had in fact created an account receivable of $179,800. (See paragraph 308 of this Report.)

130. *Canadian Forces Base Summerside, P.E.I.* In paragraph 116 of our 1971 Report we referred to the conclusion reached late in 1969 by the Department of National Defence that with the phase-out of the Neptune maritime patrol aircraft, the remaining operational activities of CFB Summerside should be transferred to other Canadian Forces bases and that this Base could be closed in 1970, resulting in an annual saving in excess of $6 million. Following consideration of this matter the Government announced in December 1969 that because of the impact closure would have on the economy of Prince Edward Island the Base should not be closed before March 31, 1973. The Treasury Board subsequently approved an increase in the Department's budgetary ceiling for 1971-72 of $6.7 million to meet the additional cost involved to March 31, 1973.

On March 23, 1972, the Government announced in the House that the Base was to be retained in its present role because of economic considerations. As we pointed out last year, to the extent that additional costs are incurred in keeping the Base open over the costs that are necessary for the fulfilment of the function of the Department of National Defence, the appropriations of that Department have been applied to a purpose not authorized by Parliament.

131. *Exchange of CF101 Voodoo aircraft.* In our 1962 Report (page 32), we drew attention to a 1961 agreement between Canada and the United States under which Canada acquired 66 CF101 Voodoo aircraft in exchange for an undertaking to operate and maintain certain Pine Tree radar line stations.

In 1968 the United States offered to exchange 60 of an improved version of the aircraft for the 60 remaining in the Canadian fleet and to provide a further six aircraft to replace those lost through attrition, for $16 million payable during the period 1968-69 to 1970-71. Due to budgetary limitations Canada did not proceed with the exchange in 1968; however, in 1969 negotiations were reopened when the Department realized that completion of its obligation under the 1961 agreement by January 1970 would release the necessary funds. In June 1970 Canada and the United States agreed to proceed with the aircraft exchange, Canada undertaking to operate and maintain certain radar stations for a further 19 months to July 31, 1971, in lieu of payment of an estimated $31.5 million. Of the increase in the estimated cost of the exchange, from $16 million in 1968 to $31.5 million in 1970, $9 million is

attributable to price increases and $6.5 million to increases in quantities, including $2.5 million to replace four additional aircraft lost through attrition.

The Public Accounts Committee in its First Report 1968-69, presented to the House on January 29, 1969, recommended certain criteria to be used in determining the votes required under the revised form of the Estimates introduced in 1970-71 which include the following:

> As capital investment today can well mean increased Administrative cost tomorrow, spending proposals involving more than $5 million in total for Construction and Acquisition within a departmental program shall always be the subject of a separate vote.

Although there have been separate capital expenditure votes for the Department since 1970-71 they have not provided for or disclosed the substantial spending involved in this exchange.

The cost of the exchange, estimated at $31.5 million, together with $3.6 million for work carried out in Canada preparing the aircraft for service, has been included in operating expenditures, for the years from 1969-70 to 1971-72. The cost of the exchange which was completed in February 1972, is not shown in the accounts as capital expenditure, nor is the corresponding recovery by Canada of the cost of operating and maintaining radar stations, recorded as recovery of expenditure or revenue. As a consequence, neither the Estimates nor the Public Accounts draw to Parliament's attention capital expenditure in excess of $35 million.

In the years 1970-71 and 1971-72 there were separate votes for operating expenditures, National Defence Vote 5, and capital expenditures, National Defence Vote 10. Accordingly in these years the Department has used expenditure recoveries or revenue arising from one vote to meet expenditures chargeable to another vote. This may be authorized by National Defence Vote 1 which concludes

> . . . and authority to spend revenue, as authorized by Treasury Board, received during the year for the purposes of any of the said Votes [including both Votes 5 and 10].

As the transfer of revenue between votes is unusual, we suggest this Vote text be reviewed.

132. *Cost resulting from acceptance of building not constructed in accordance with departmental standards.* In 1963 the Department of National Defence agreed to allow a non-public fund organization to construct a curling club building at Canadian Forces Base Montreal. The plans and specifications were examined by the Department and considered satisfactory but the design of roof trusses was changed after the initial examination and there is some doubt concerning the examination of the new design. An undertaking was given that construction would be under the close supervision of the officer in charge of the local engineering detachment; however, we have seen no indication of this.

The building was completed and official opening ceremonies were held in January 1964. About two months later half the roof was blown off in a wind storm.

There appear to have been no reports of injury and the contractor replaced the roof, which may account for the absence of an official review of the design and construction at that time.

In 1965 the Minister of National Defence, on behalf of the Crown, accepted the ownership of the curling club building from the non-public fund organization. Departmental procedures required that before the transfer the officer commanding the unit certify that the building complied with departmental construction standards. In this instance the certificate does not appear to have been signed.

In February 1971 the roof collapsed, fatally injuring an associate civilian member of the club. A board of inquiry, convened under the provisions of the National Defence Act, *R.S., c. N-4,* concluded that the collapse of the roof could have been caused by one or more deficiencies in design and construction. Following the inquiry a study concluded that "....had the roof trusses been designed and constructed according to the design criteria existent in 1963-64 Federal, Provincial and Municipal building codes, the roof would not have collapsed under the load of snow....".

A claim was lodged against the Crown by the widow and son and in October 1971 the Federal Court of Canada awarded them damages and costs totalling $68,000. A request for replacement of the roof as a charge against public funds was denied by the Department on the grounds that the public has no responsibility to provide or replace curling rinks in urban areas; however, when the non-public fund organization met this cost, the Department paid $8,000 for the removal of the damaged roof and for various repairs mainly attributable to its collapse.

133. *Champ de Mars property, Montreal, Que.* In previous Reports (paragraph 114 in 1971) we have drawn attention to this property (4.2 acres valued at $4.2 million in 1967) which has been under lease by the Department of National Defence to the City of Montreal since 1889 at a rental of $1 per annum, and since 1925 has been used as a parking lot. It is apparent that the Department has lost substantial revenue over the years because it has not charged an economic rent for use of the property.

In January 1971 the Public Accounts Committee was advised that the Department would request Crown Assets Disposal Corporation to dispose of this property. The Department did this in March 1972, but the property has not yet been sold.

134. *Special services provided by the Department of National Defence.* The Department of National Defence is continually called on to provide a variety of special services. In previous Reports (paragraph 108 in 1971) we referred to the failure of the Department to recover the cost of providing some of these services with the result that its appropriations were being applied to purposes not authorized by Parliament.

One of the sub-objectives of the Defence Services Program stated in the Estimates is "To preserve sovereignty over and ensure security within the territorial limits of Canada and to supplement the civil authorities and contribute to national development". The National Defence Act, *R.S., c. N-4,* provides for the use of the Canadian Forces to aid civil powers in civil emergencies, the cost incurred being the responsibility of the province that requests aid. The Act does not deal specifically with other circumstances in which assistance is given to persons or organizations, but general authority is implied in the text of National Defence Vote 1 where the Department is authorized to make recoverable advances and to spend revenue received in respect of charges for supplies and services.

We also referred last year to the National Defence Provision of Services Regulations, Order in Council P.C. 1962-13/653 of May 2, 1962, under which the Department may authorize the provision of special services for which a fee shall be charged with certain specified exceptions. We noted that although the Regulations Act, *R.S., c. R-5,* required that every regulation be published in the *Canada Gazette* within thirty days after it was made, the National Defence Provision of Services Regulations had never been published. The Regulations Act has now been replaced by the Statutory Instruments Act, *1970-71-72, c.38,* under which these Regulations are no longer required to be published.

The Regulations do not apply to services of a continuing nature costing in excess of $25,000 per annum or, except in an emergency, where the service in any one instance costs in excess of $5,000. They stipulate that a fee shall be charged in all cases unless the Minister is satisfied that the service provided is of a temporary and non-recurring nature and is:

(a) for the benefit of, or in support of, the Canadian Forces or national defence;

(b) for community purposes of a non-commercial nature; or

(c) to provide humanitarian assistance in individual cases in the nature of mercy aid in the relief of human distress or suffering.

Under the Regulations the fee for providing any service, unless set by any other Act or regulation, is to be the equivalent commercial rate or if that rate cannot be readily determined an amount equal to the cost to the Department as determined by the Minister plus ten per cent. The Department has recognized deficiencies in the Regulations and new regulations are being drafted in order to remedy this situation.

A 1958 Order in Council provides authority for the Minister of National Defence to charge other government departments and agencies two and one-half cents per passenger-nautical mile for space provided on scheduled aircraft, and aircraft operating costs for special flights. Notwithstanding this authority it has not been the practice of the Department to levy charges for space provided on scheduled aircraft to other departments and agencies and there has been considerable variation in the Department's recoveries for special flights. In some cases the full cost was recovered, in others partial recovery was made, and in others no part of the cost was

recovered. We understand that the establishment of a common rate of charge to other government departments and agencies has been under review for some time by the Department of National Defence, the Department of Transport and the Executive but that this matter has not yet been resolved.

During the year additional instances were noted where it was not clear what authority was relied on for providing services without fee or full recovery of cost.

1. In April and October 1971 special flights were provided for the Governor General and his official party for state visits to London, Amsterdam, Brussels and Luxembourg and to Istanbul and Iran. Special flights between various locations in Canada totalling approximately 36,000 miles were also provided on 15 occasions during the year.

2. In June 1971 a special flight was provided from Ottawa to Vancouver and return for Members of Parliament, conference officials and press representatives attending the Constitutional Conference in Victoria, B.C. Some ground transportation costs were recovered from the Secretariat of the Constitutional Conference.

3. In July 1971 a forestry observation tower donated by a corporation was moved by helicopter to an underprivileged children's camp near Ste-Véronique, Que. Aircraft operating costs amounted to $8,000.

4. In August 1971 the Department agreed to demolish an old timber railway trestle bridge for a corporation. The demolition charge started a fire which developed into a forest fire. As a direct result approximately 1,300 man-days, an unknown number of operating hours of vehicles and fire-fighting equipment and ten hours of helicopter operation were required to fight the forest fire. The cost to the Department is estimated to have been in excess of $45,000.

5. As a result of the India-Pakistan conflict, special flights were provided in December 1971 to evacuate 149 Canadian and 300 other nationals from Karachi and Islamabad to Tehran and Lahr, with the Canadian evacuees continuing on to Ottawa. Aircraft operating costs were determined to have been $27,000 none of which was recovered.

6. In January 1972 a special flight was provided at the request of the Department of Indian Affairs and Northern Development to transport Eskimo artifacts from Vancouver to Paris in support of the "Masterworks of the Canadian Arctic" exhibition. Aircraft operating costs amounted to $11,000 of which $4,000 was recovered, leaving a balance of $7,000 to be absorbed by the Department.

7. In February 1972 the Department provided crowd control assistance to the organizers of the World Cup Ski Competition held at Mount Norquay, Banff, Alta., at a cost of $8,000.

8. During the year the Department provided a total of 967,000 passenger-miles on scheduled flights at the request of the Department of National Health and Welfare to Canadian participants in national and international sports events. Special flights covering approximately 22,000 miles were also provided in July and August 1971 to transport sailboats and rowing shells to the Republic of Colombia in connection with the Pan-American Games.

Transportation continued to be provided to Members of Parliament and their dependants on scheduled service flights in Canada and to overseas locations without charge. Departmental reports indicate that such persons travelled a total of 2,577,000 passenger-miles on Canadian Forces scheduled flights during the year.

We also noted that the Department was continuing to provide services similar to 14 of the 27 referred to in previous Reports. A departmental study of special flights for visiting dignitaries, parliamentarians and government officials disclosed that of the 89 flights during the calendar year 1971, 51 had been provided without charge. The full cost of the 89 flights including pay and allowances of the aircrew totalled $796,000, whereas only $148,000 was recovered.

One of the cases reported previously involved the transportation of salvaged aircraft parts for four World War II Japanese aircraft from New Guinea to Winnipeg, Man., in return for which the Department was promised one of the aircraft which was to be offered to the National Museums of Canada. The aircraft was accepted by the Department in July 1972 and we understand it will be given to the Museums in May 1973.

The Department is required to report semi-annually to the Treasury Board every service provided pursuant to the Regulations where no charge is made and the cost exceeds $1,000. With the exception of the services referred to in items 3 and 4, none of the services commented on has been reported.

We reiterate our opinion that failure to recover the costs of providing these services has resulted in the appropriation being applied to purposes not authorized by Parliament.

135. *Assistance to provinces by the Canadian Forces in civil emergencies.* In previous Reports (paragraph 109 in 1971) we have drawn attention to amounts recoverable from provinces representing the costs of assistance provided to them by the Canadian Forces in civil emergencies, primarily forest fires and flood control. At March 31, 1971, the accounts of six provinces totalled $817,000, which still remains unpaid.

Some of these accounts were referred to by the Public Accounts Committee in its Sixth Report 1964-65 where it noted that as the Department had not been successful in collecting the accounts they had been referred to the Executive for direction but that such direction had not been received. The Committee asked the Auditor General to inform it of the final outcome of these matters (see Appendix 1, item 3).

The Committee again referred to these unpaid accounts in its Fifth Report 1968-69 expressing the view that they should be settled in view of the agreements to pay, or some agreement should be reached for a sharing of the costs. The Committee suggested that the item be included on the agenda of a future federal-provincial conference for clarification. In December 1968 the Department of National Defence forwarded particulars of each account then outstanding to the Federal-Provincial Relations Secretariat of the Privy Council Office, seeking its assistance in resolving the difficulties. There was nothing further to report when the Committee again considered this matter in April 1970 and there were expressions of concern that the accounts were still outstanding.

The Minister of National Defence indicated to the House in September 1971 that the Executive would shortly deal with the arrears of the provinces.

In 1971-72 additional assistance was provided by the Canadian Forces in civil emergencies to various provinces and the Northwest Territories in ten instances involving costs totalling $130,000. Except for four accounts totalling $28,000 these costs have been repaid to the Department. The accounts remaining unsettled at March 31, 1972, are:

Newfoundland	1961	$ 410,000	
	1967	221,000	
			$ 631,000
Nova Scotia	1958	17,000	
	1960	60,000	
	1971	4,000	
			81,000
Saskatchewan	1969	45,000	
	1971	9,000	
			54,000
Prince Edward Island	1960		43,000
British Columbia	1965		20,000
Quebec	1965	1,000	
	1971	4,000	
			5,000
Northwest Territories	1971		11,000
			$ 845,000

In each case the assistance was provided under emergency conditions on the written undertaking of each Province to reimburse the Federal Government for any costs incurred by it. Until reimbursement is made, the costs remain a charge to appropriations which had not been provided by Parliament for these purposes.

136. *Failure to recover the full cost of foreign pilot training*. The Department of National Defence periodically undertakes pilot training programs for foreign countries and in 1971-72 a total of $7,412,000 received for these services was credited to National Defence Vote 5. These recoveries were based on a fixed fee per trainee which had been determined by negotiation with the respective governments.

In the White Paper *Defence in the 70's* the Minister of National Defence stated that negotiations for an agreement to use training facilities in Canada are based on the principle that the cost of the training should be borne by the user country. Legislative authority to provide services on a cost-recoverable basis is given in National Defence Vote 1 which reads in part as follows:

> authority, subject to the direction of the Treasury Board, to make recoverable expenditures or advances from any of the . . . Votes in respect of . . . services performed on behalf of . . . other governments . . .

The Treasury Board has directed, based on a recommendation of the Royal Commission on Government Organization, that it should be departmental policy wherever economically and administratively feasible to charge for all goods sup-

plied or services rendered to the public unless there are provisions for specific exemptions, and that the following criteria should apply:

1. Charges should at least cover all direct and indirect costs of providing the service.

2. Cost systems should be introduced where appropriate to furnish accurate costs of rendering services.

3. The comparison of these costs with revenue derived from the services can thus be brought to the attention of management through a reporting system, and the executive and Parliament through the estimates.

Estimates prepared by the Department for two major training programs disclosed costs of $6,120,000 which were $1,004,000 in excess of the $5,116,000 recovered in 1971-72. However, these costs did not include any amount for depreciation of approximately $336,000 on the aircraft used so that the cost not recovered was at least $1,340,000. The term "cost" is subject to various interpretations and in making its calculations the Department did not use an interpretation that would produce the highest cost.

National Defence Vote 25—Mutual Aid authorized the transfer of material and the provision of services to allied governments, to the extent of $700,000, chargeable to National Defence Votes 5 and 10. Inasmuch as materials valued at about $478,000 had already been supplied, it is apparent that the Department's unrecovered costs greatly exceed the amount authorized.

137. *Failure to charge for storage of cloth and medical supplies.* In 1970 we drew to the attention of the Department of National Defence that for over a decade it had provided accommodation and warehousing services without charge to the Post Office for storage of cloth at a Canadian Forces supply depot in Montreal and to the Department of National Health and Welfare for storage of medical supplies at seven Canadian Forces medical equipment depots. The Department of National Defence reviewed this matter during 1970-71 and decided to charge for these services, with effect from April 1, 1971, in accordance with the recommendation of the Royal Commission on Government Organization that relevant costs should be borne by user departments.

For the year ended March 31, 1972, charges totalling $13,000 were recovered from the Post Office. However, the Department of National Health and Welfare advised that as the request for payment of $179,000 in 1971-72 was not made until March 1971 it had made no provision in its Estimates for that year. It further advised that the Treasury Board Secretariat would not recommend additional funds through 1971-72 Supplementary Estimates or for any future year. As the National Defence appropriations may be charged for services provided to others only if the charges are subsequently recovered, the Department has no authority to continue providing this service.

138. *Inadequate control over supply items.* In paragraph 118 of our 1971 Report we drew attention to a serious lack of internal control over the Canadian Forces supply system data and computer programs. We pointed out that in the existing system no control exists to prevent loss of records and that incorrect stock balances could go undetected indefinitely. We also noted that there were no controls to ensure that all information concerning movement of supplies enters computer processing accurately, and that quantities shown on computer records are not verified on a systematic basis by a physical count of supply items. Computer program and system documentation, an effective tool in the detection of system and procedural weaknesses and a requirement for error analysis by programmers, analysts, managers and auditors, was also found to be incomplete.

Examinations carried out during the year indicate that little has been done to improve internal control of the supply system; controls recommended by this Office and by Department of National Defence internal audit staff have not been implemented. The Department has indicated that the recommended changes would not be worthwhile since the current system is to be replaced by a new integrated logistics system in 1974.

Discrepancies in the records still exist. When they understate the actual stock position, it can lead to purchases for which no requirement exists. Overstated stock balances on the other hand may bring about failure to procure through normal channels.

During the year we reviewed the internal control over computer inventory records at one depot and found it deficient as well. Protection of these records against fire, vandalism, and theft was inadequate and the potential effect of this weakness was compounded since the depot was not preparing periodic copies of the records for storage off the premises. Furthermore, all information necessary for re-creation of records is not available from the central computer. Systems documentation was limited and out of date, and no duplicate copies of either systems or program documentation were maintained.

We understand that the stock balances, which probably have a value in excess of $600 million, and certain other information for the new system to be introduced in 1974, will be taken from the present depot records and that unit prices will be taken from the central computer records. Because of this we wrote to the Deputy Minister in October 1972 suggesting that the planned introduction of the new logistic system made it doubly important that certain steps be taken now to ensure effective control over depot records and central computer records. He advised that the present state of program documentation is considered to be adequate and that the system, based on information obtained from various studies, is generally reliable for operating management and control purposes. However, he admitted to "some shortcomings that cannot efficiently or economically be corrected until the new integrated system is implemented".

Nevertheless, in view of the errors found this year, our concern is that lack of internal control at the present time will make it difficult to obtain accurate information on the more than 600,000 stock items when the new system is introduced.

139. *Inadequate control over Accountable Advances to aircraft repair and overhaul contractors for purchase of spare parts.* In previous Reports (paragraph 119 in 1971) we have referred to the policy of the Department of National Defence of contracting with industrial concerns, through the Department of Supply and Services, for the major overhaul, modification, etc., of equipment, and to the practice of providing assistance to the contractors in financing the necessary spare-parts inventories by means of Accountable Advances. Following our recommendation that the role of the Departments relative to these inventories be clarified, the Department of National Defence in November 1969 accepted responsibility for maintaining surveillance over the contractors' inventory management methods, procedures and procurement. A revised specification was promulgated in 1970 for incorporation into all new contracts for the acquisition of Accountable Advance spares and into all continuing contracts following a joint review, contractor by contractor, of existing Accountable Advance inventories, made with a view to reducing such inventories to a realistic level.

In January 1972 the specification was again revised with a view to further clarifying the Departments' and the contractor's responsibilities and the reporting procedures applicable to the various classes of Crown-owned repair and overhaul spare-parts inventories. This specification has been incorporated into all new and ongoing contracts for the acquisition of Accountable Advance spares.

Since 1970 the specification has stipulated the conditions and outlined the contractor's responsibilities with regard to the provisioning and reprovisioning of spares. Spares not procured in accordance with these conditions are to be the contractor's responsibility. Although the specification in effect prior to 1970 was silent on this matter, we understand that the Department of Supply and Services in its administration of that specification subscribed to the same general policy. Nevertheless, the intention appears to be that the Crown will bear the full loss on disposal of spares identified as surplus to overall requirements during the present inventory review.

The review which commenced in 1970 involves Accountable Advance spares inventories of about $27 million held by 37 contractors. One-half of these inventories is expected to be surplus to the requirements of the contractors, although some portion of this surplus will be required for Service inventories. The review was expected to be completed during 1971-72 but progress has been slower than anticipated. To June 30, 1972, the cost of material identified as surplus amounted to $4,199,000 of which material costing $4,013,000 had been disposed of through Crown Assets Disposal Corporation for $91,400. In addition government-furnished overhaul spares costing $1,875,000 were identified as surplus and approximately one-half of

these were disposed of for $25,000. At December 31, 1972, the inventories held by 20 contractors, accounting for only about one-third of the overall inventory value, had been reviewed and the Department could give no estimate of when the review would be completed.

140. *Inadequate control over advance payments made under contracts.* Advance payments to the Governments of the United States and the United Kingdom are made by the Department of National Defence under the terms of various contracts. The advance payments are charged against the Department's appropriation in the year made and in many instances a number of years may elapse before delivery of goods or provision of services. Outstanding advances are reported annually in the Public Accounts.

The advances at March 31, 1972, reported by the Department and included in Volume II of the Public Accounts at page 34.27 were:

Government of the United States	$ 71,759,000
Government of the United Kingdom	2,409,000
Other advances (13 items)	1,348,000

Our review of the departmental records from which these amounts were compiled disclosed a number of weaknesses in internal control procedures, with the result that we were not able to verify the correctness of the amounts reported. The main weaknesses were:

1. Advances to the Government of the United States were made under approximately 675 individual contracts. Although a memorandum control account is maintained, the balance in this account had not been reconciled since March 1970 with the subsidiary accounts maintained in each contract file. Under these circumstances the loss of a file may remain undetected.

2. Some contracts provide for an advance to be placed on deposit with the United States Treasury until required and these deposits bear interest which should be credited to Canada. In the past, interest has also been received under some contracts which made no reference to a deposit at interest. The Department maintains no control with respect to interest receivable on such deposits.

3. Interest of $354,000 earned on one deposit with the United States Treasury was not paid into the Consolidated Revenue Fund as is required by section 11 of the Financial Administration Act but was left on deposit. This $354,000 deposit is not included in the total of advances reported and is not reflected in the accounts of Canada.

4. No control account is maintained over some 1,100 advances to the Government of the United Kingdom and others. A check of the Department's listing of advances outstanding at March 31, 1972, disclosed unlisted advances totalling $2.4 million. We learned that some of these advances had been omitted from the listing in error and others due to a misunderstanding of the reporting requirements.

5. There was no systematic review and follow-up of long-standing advances, some dating back more than 10 years.

We also noted that with effect from April 1, 1972, the total of a supplier's invoice is being deducted from the advance even though the amount billed, or a portion thereof, may be in respect of goods not received, damaged goods or items in dispute due to discrepancies between the goods ordered and the goods received. This can only result in confusion as to the actual amount of the advances at any given time.

Following a review of the records and internal control procedures with respect to these advance payments we expressed concern to the Department about the weakening of control over them which had taken place since it took over the accounting responsibilities from the Department of Supply and Services in April 1970. We understand that revised procedures have been introduced to strengthen accounting control but these have not yet been reviewed.

141. *Higher costs of procurement in Canada.* In August 1970 the Department of Supply and Services invited tenders from four firms for parachutes required by the Department of National Defence. In May 1971 two contracts with a total ceiling price of $541,000 were awarded with the approval of the Treasury Board to the only Canadian manufacturer even though his price was $82,000 (18%) higher than that of the only other acceptable tenderer who was the Canadian agent for United States produced equipment and who had bid $459,000 including customs duty.

The Department of Supply and Services awarded the contracts to the Canadian manufacturer primarily because unilateral action by the United States Government had closed its market to him, even though about 90% of his business is with the Department of National Defence. The Department considered it advantageous to maintain a Canadian contractor capable of developing, manufacturing and overhauling parachutes, which in turn creates a demand for Canadian textiles. A further consideration was the wish to assist this contractor while he looked for new export markets for products which the Department of Industry, Trade and Commerce had contributed $300,000 to develop.

In recent years it has been Government policy to pay a premium for a product with higher Canadian content. This premium is calculated at up to 10% of the difference in foreign content. In this instance the additional cost was greater than usual.

The contracts were amended to provide for the payment of progress claims up to 75% of the contract values, without the approval of the Treasury Board which is required under the Government Contracts Regulations. Unauthorized progress payments totalling $149,300 have been made.

142. *Higher costs of centre wing replacement program in Canada.* In 1967 the Department of National Defence detected cracks in the centre wing sections of its fleet of Hercules aircraft. The United States Air Force had encountered similar

problems and had decided that a crack-by-crack repair policy was inadequate. As a result the United States manufacturer developed a strengthened centre wing section and commenced a replacement program in 1969.

In June 1970 the United States Air Force offered to modify the Canadian fleet of 23 aircraft beginning in July 1971 at an estimated cost of $4.7 million provided that a firm commitment was made by August 31, 1970. Following the receipt of an unsolicited proposal from a Canadian contractor interested in making the modifications, a study was made by the Department of Supply and Services to determine the feasibility of undertaking the program in Canada. While it was technically possible with the co-operation of the United States manufacturer to have the work carried out in Canada, the price offered by the United States Air Force was $3 to $4 million less than was possible in Canada and the Department recommended in early August that the United States Air Force offer be accepted. However, the Department of National Defence did not submit the proposal to the Treasury Board until October 1970 and approval was given in November 1970. As this was beyond the expiry date of August 31, 1970, the work was not accepted by the United States Air Force on the basis of the original offer.

In February 1971 an amended offer of $5.2 million was received and the Treasury Board authorized entry into a contract with the United States Air Force. However, because of representations by the Department of Industry, Trade and Commerce, the Board authorized the Department of Supply and Services to forgo the United States offer if prior to its May 3, 1971, expiry date an offer was received from a Canadian source which in the Department's judgment appeared to present a favourable alternative. Despite this understanding the United States Air Force offer was allowed to lapse although no proposal was received from a Canadian contractor until June 10, 1971, and even then the proposal was not acceptable. A contract was eventually awarded to the Canadian contractor in November 1971 at a price of $7.8 million, including sales tax of $550,000 mainly on components to be supplied at a cost of $4.4 million by the United States manufacturer.

The Canadian contractor was selected because the Department of Supply and Services considered his price of $7.8 million a reasonable alternative to the United States Air Force price of $5.2 million plus sales tax of $2.2 million which would have been payable under section 27 of the Excise Tax Act, *R.S., c. E-13*, on the value of the aircraft, as well as the modifications, on their return from the United States. While the sales tax would have been a charge to the National Defence appropriation, it would have been paid to the Department of National Revenue and thus no net cost to the Crown would have been incurred. By having the work done in Canada the Crown will incur additional costs in excess of $2 million. The contractor estimated that the work would provide jobs for 62 men for 26 months.

143. *Irregular contracting procedures.* In January 1969 the Department of National Defence advised the Department of Supply and Services of a requirement in Canada for a facility to repair and overhaul a fleet of 10 helicopters which had

been acquired in 1968. The Department of Supply and Services assessed eight proposals received in response to a request to the industry and in December 1969 concluded that the contractor who submitted the lowest overall proposal was capable of meeting the objectives. However, in February 1970 the Department of National Defence informed the Department that final selection of the contractor should await the addition of 50 helicopters to its fleet in 1971.

In January 1971 the Department of Supply and Services was asked to seek proposals for the new requirement with a view to establishing a repair and overhaul facility in Canada in 1972-73. Despite evidence of increased interest in the larger requirement and the fact that the contractor selected originally had already been informed that new competitive proposals were to be solicited from the industry, the Department decided in July 1971 to negotiate on the basis of his two-year-old proposal. In December 1971 the Treasury Board approved entry into a contract for the period December 1971 to March 1973 at an estimated cost of $384,000.

Section 5 of the Department of Supply and Services Act, *R.S., c. S-18*, requires purchases to be made in accordance with the Government Contracts Regulations which in turn require that tenders be sought. In our opinion tenders that are two years out of date and for a much smaller fleet do not satisfy this requirement, and the contract award is therefore irregular. Furthermore, the award without effective competition departed from the basic principles of a "Plan for the expansion of competition in contracting for repair and overhaul requirements" approved by the Treasury Board just two months earlier.

144. *Cost of the CF5 aircraft procurement program.* In our past two Reports (paragraph 124 in 1971) we have commented on the cost of procurement of 115 Canadian-built tactical support aircraft. By October 1971 all the aircraft had been delivered and the total forecast expenditure remained at $215 million of which $209 million had been expended. No allowance was made in the forecast for an additional $23 million claimed by the aircraft production contractor to offset cost increases for which he considered the Crown responsible. The contractor had been provided with a $15 million loan from the Defence Production Revolving Fund and was in default on his final payment of $8.2 million.

The contractor's claim was settled in June 1972 for $9 million, which the Crown has included in a claim it has made against the designer of the aircraft.

Total forecast expenditure has been increased to $222 million of which $220 million had been expended to August 31, 1972. Of this, $214 million has been charged to appropriations of the Department of National Defence and $6 million remains a charge to the Defence Production Revolving Fund.

Sixteen of the single-seat CF5 aircraft and two dual-seat trainers have been sold to a foreign country and are being replaced by eighteen dual-seat trainers from new production. (See paragraph 74 of this Report.) Of the current inventory of 91 CF5's, 43 are in storage.

145. *DDH 280 destroyer procurement program.* In previous Reports (paragraph 122 in 1971) we have referred to the increase in the estimated cost of four destroyers from $150 million in 1965 to $252 million in 1970 of which $171 million had been expended to October 1971. The estimate remains at $252 million of which $221 million had been expended to November 30, 1972. Not included in the estimated cost or in the expenditure are additional related costs estimated at $53.5 million, some of which are for spares of a type normally included in capital costs.

The contractual arrangements for earlier destroyer construction programs provided basically for the payment of cost plus profit and there was little incentive for the contractor to reduce cost. Because of this, the Department of Supply and Services has been trying in recent years to introduce competitive fixed-price contracts in Canadian shipbuilding, first in repair and overhaul and then, with this program, in construction. The DDH 280 construction contracts were awarded after competitive tender, to the lead yard for a fixed price and to the follow yard on a target-incentive basis.

In ship construction, design and specification changes seem inevitable. To maintain the incentive inherent in the original contract, it is necessary for the Crown and the shipyard to analyze the effect changes will have on cost and negotiate appropriate adjustments to the contract price. Clearly if the volume of changes is high or if their nature makes it difficult to assess the cost, there is a substantial risk that the procedure will break down.

In 1971-72 the fixed-price contract with the lead yard and the target-incentive contract with the follow yard were increased $35 million in total, for additional work, design changes, delay and disruption, and anticipated escalation in the cost of material and labour. Two lump-sum adjustments account for $28 million (80%) of the total, and represent about 25% of the revised contract prices. Twenty amendments to each contract to September 1972 have incorporated 853 changes into the lead yard contract and 775 into the follow yard contract. This high volume of changes together with further changes in the scope of the work which are not specifically identified, and a shortage of qualified departmental estimating and negotiating personnel have necessitated the lump-sum settlements. A further consequence is the inability of the Department of Supply and Services to state how much of the $35 million relates to the non-productive costs of delay and disruption which the shipyards have indicated to be in excess of $7 million.

In our opinion the advantages of competitive tendering and the fixed price have been lost in this case.

In this connection the Department of Supply and Services might consider adoption, for ship construction contracts, of the recommendation made by the Public Accounts Committee in its Eighth Report 1966-67, relating to contracts for ship repairs and alterations (see Appendix 1, item 19):

> that, in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contract subject to cost audit by government auditors.

146. *Additional costs of destroyer refits.* In our 1970 Report (page 69) we described two instances where costs for docking and refitting naval vessels increased significantly over estimates because of errors or omissions in work specifications supplied by the Department of National Defence.

During the year, we noted three instances where omissions in work specifications together with the Department's inability to supply components for incorporation into the work contributed to cost overruns and gave rise to non-productive payments:

1. INADEQUATE SPECIFICATIONS AND FAILURE OF GOVERNMENT SUPPLIED MATERIAL. In January 1971 the Department of Supply and Services awarded a contract in the amount of $469,000 for known work on the refit of H.M.C.S. *Skeena*.

   In June, while undergoing sea trials, the port main gearing failed due to the incorrect fitting of bearings. Other ships in this class had experienced similar failures but the recommended corrective measures had not been fully implemented at the time of this refit. In addition, components supplied from National Defence stocks failed. Associated additional costs paid to the contractor amounted to $43,000. Further costs of repairs to the port main gearing undertaken by the Department have not been determined.

2. LATE DELIVERY AND UNAVAILABILITY OF GOVERNMENT SUPPLIED MATERIAL. In March 1971 the Department of Supply and Services awarded a contract for known work on the refit of H.M.C.S. *Saskatchewan* at a cost of $327,000 and expected that additional work arisings would amount to $113,000, for a total cost of $440,000. In June, known work included in the fixed-price portion of the contract at $11,000 was deleted.

   The refit was completed in June 1971 at a total cost of $452,000. Included as additional work arisings were $8,000 to manufacture $1,000 worth of stud bolts because they were not available from National Defence stocks, and $19,000 for overtime and extended dockyard services due to late delivery of components supplied by the Department.

   These non-productive costs totalling $26,000 accounted for the cost overrun.

3. FAILURE TO SUPPLY OR NEED TO REWORK GOVERNMENT MATERIAL. In July 1971 the Department of Supply and Services obtained Treasury Board authority for the refit of H.M.C.S. *Fraser* at an estimated cost of $940,000 comprising $776,000 for known work and $164,000 for additional work arisings.

   Two contract amendments dated November 1971 and February 1972 incorporated 473 work arisings valued at $378,000 and 5 deletions of known work included in the fixed-price portion of the contract at $94,000, which brought the final contract cost to $1,060,000.

Included in this cost was an amount of $50,000 for the manufacture of numerous components which the contractor had to supply or rework because they either were not available from National Defence stocks or were supplied by the Department and found to be defective. The contractor was also paid $44,000 for overtime premium and $5,000 for additional labour required to make up for delays caused by late delivery or unavailability of Crown supplied materiel and the late arrival of Crown personnel.

Deletions from the contract included known work for habitability valued at $87,000, which was completed in the naval dockyard in Halifax. We have been unable to determine the exact relationship between the scope of the work originally planned and that done at the dockyard but the cost increased to $144,000, bringing the total cost of refitting H.M.C.S. *Fraser* to $1,204,000, an increase of $264,000 (28%) over the estimate approved by the Treasury Board.

147. *Restigouche Class destroyer conversion program.* In our Reports for 1968 and 1969 (page 78 in 1969) we commented on the decision by the Department of National Defence to reduce from seven to four the number of Restigouche Class destroyers to be included in a conversion program. The Department estimated that $4.3 million of the reduced program cost of $49.7 million related to material which became surplus as a result of the reduction in the program. This material was being retained for possible use in future ship conversions and refits or as spares.

Two of the destroyers were converted in the Department's naval dockyards at Halifax and Esquimalt and a contract for the conversion and refit of the other two destroyers, H.M.C.S. *Kootenay* and H.M.C.S. *Restigouche*, was awarded in May 1970 to the lowest of six tenderers at a firm price of $5.2 million for known work. Additional work was anticipated for which the Department had made a further provision of $1.5 million. The latter conversions were unusual in the following respects:

1. The contract originally included a 12-month warranty period in respect of all work but in July 1970 the warranty period for maintenance and repair work was reduced to 90 days without any reduction in the price.
2. Originally providing for delivery of the *Kootenay* by June 1971 and the *Restigouche* by September 1971, the contract was amended in January 1971 changing the delivery dates to August and October 1971 respectively. Despite evidence that the contractor was unable to provide sufficient manpower to meet the delivery dates for these two ships, he was awarded the repair and refit contract for H.M.C.S. *St. Laurent*, the work to be done concurrently during the period August to November 1971. He did not achieve a satisfactory rate of progress with the result that the first two ships were delivered even later, the *Kootenay* in January 1972 and the *Restigouche* in May 1972, with numerous items of work still outstanding. The cost to the Department of National Defence of the delays in delivery of the ships has not been calculated.
3. Six weeks after taking delivery of the *Restigouche*, examination revealed extensive corrosion damage to the main propulsion and auxiliary systems of the ship. As preliminary investigation indicated that the corrosion was related to a chemical cleaning of the main boiler carried out by a subcontractor, the contractor was advised in July 1972 that he was being held responsible for all costs of rectification. He has denied liability.
4. In September 1972 tenders were invited from five shipyards for repair of the corrosion damage and the previous contractor was the only shipyard to submit a tender. Other yards withheld their tenders protesting against certain aspects of the invitation to tender. Without prejudice to the rights of the Crown with respect to recovery of the costs of repairing the corrosion

damage, a contract was entered into at an estimated cost of $584,000 and repair of the ship is now in progress.

5. The value of the conversion contract at December 31, 1972, was $6,397,000. The contract provides that there shall be withheld from payments to the contractor a warranty holdback of 2% of the contract value and a further amount equal to double the value of defects and deficiencies outstanding on delivery. Based on a Department of Supply and Services' estimate of the value of credits still to be negotiated for deficiencies, an amount of $240,000 should have been withheld. Payments to the contractor of $6,225,000 therefore exceed by $68,000 the amount payable under the terms of the contract.

6. The contractor has claimed a further $3.2 million as compensation for delays and costs he considers attributable to the Crown. The claim is under review by the Departments of National Defence and Supply and Services.

148. *Cost of vacant accommodation following closure of Canadian Forces Base Gimli, Man.* In August 1970 the Minister of National Defence announced the phase-out of military operations at Canadian Forces Base Gimli by September 1971. A general reduction in the size of the Forces, a change in Force priorities and the fixed defence budget were given as the factors leading to this decision.

In 1965 the Department had entered into an agreement with a development company whereby, for a period of 20 years, the Department guaranteed to the company a gross monthly rental of $14,200 from the leasing of 150 housing units to be constructed at Gimli, primarily to accommodate married personnel assigned to the Base. No payments have been required under this guarantee. For reasons which we have been unable to determine, the Department entered into a second agreement in 1967 to lease the same housing units from the company from 1968 to 1977 at a monthly rental of $19,000, the rental being subject to review and retroactive adjustment every two years to reflect changes in operating costs. This agreement suspended the original agreement for the ten-year period. The monthly rental was adjusted to $22,000 in January 1970 and $21,500 in January 1972. The reduction in January 1972 resulted in part from an overestimate of heating and other costs in the previous period. This reduction would have been greater had provision not been made for an increase from 4% to 8% in the rate of return on the company's equity in the housing units with effect from the date of the Department's announcement of the closure of the Base. As the return on the company's equity is not an operating cost, this adjustment of the rate is questionable.

The Department declined an offer by the development company to terminate both agreements in December 1971 on payment of $2 million, and the monthly rental payments continue to be made under the terms of the lease. Of the rentals paid for the year ended March 31, 1972, we estimate that approximately $220,000 was in respect of vacant units and was therefore non-productive.

149. *Acquisition and disposal of residential properties, Canadian Forces Base Gimli, Man.* As mentioned in paragraph 148 of this Report, the Department of National Defence announced in August 1970 that this Base would close in September 1971. In order to protect Service personnel from losses they might incur through sale of their privately-owned residences on the open market, the Department

obtained Treasury Board authority to purchase 44 of these properties at 85% of their appraised value at July 1, 1970, as determined by Central Mortgage and Housing Corporation.

Between October 1971 and January 1972 the Department acquired 20 residences at a total cost of $181,000 which was charged to Vote 10—Defence Services—Capital expenditures. These residences were declared surplus when they were acquired, and by August 31, 1972, Crown Assets Disposal Corporation had sold ten of them at a loss to the Crown of $27,000.

As the Department did not require the residences, the charge to the capital expenditure vote was irregular, the loss on sale being in effect a special allowance to Service personnel.

150. *Abandoned plans, Canadian Forces Base Bagotville, Que.* In June 1970 Defence Construction (1951) Limited engaged an architectural firm to carry out a preliminary site investigation, to report thereon, and to prepare preliminary drawings, specifications and a cost estimate for a 16-room addition to a school at Canadian Forces Base Bagotville for a fee estimated at $15,500. The Treasury Board later approved an increase in the fee to an estimated $40,000, based on 75% of the normal percentage fee for complete design and supervision of construction, to cover final design, specifications and a construction cost estimate. Supervision of construction was to be carried out by the Company.

In August 1971 the Department of National Defence decided that 210 secondary school students would be placed in non-service schools and the planned addition became unnecessary. The firm was paid $55,000 although the increase of $15,000, covering the cost of translation and a cost control plan, had not been approved by the Treasury Board as is required.

In February 1972, to meet the needs of elementary classes, the Company directed the same firm to produce preliminary drawings, specifications and a cost estimate, for a fee estimated at $10,000, for a smaller addition and modifications to the school, and modifications to a second school at this Base. With the approval of the Treasury Board the contract was later amended to include the preparation of final working drawings, specifications and a cost estimate for a fee estimated at $30,300, based on 75% of the normal percentage fee for complete design and supervision of construction. A construction contract was awarded in October 1972 with supervision of construction to be carried out by the Company.

Since the architectural firm was paid its full fee for both designs, the cost of the original design, $55,000, less the cost of the initial site investigation, $2,000, must be considered non-productive.

151. *Excessive cost of accommodation for militia unit, Kitchener, Ont.* In 1962 the Department of National Defence entered into a lease for a period of five years ending on August 31, 1967, to provide accommodation in Kitchener for local militia

units. The annual rental for the period of the lease was $22,338 and the terms of the lease provided the Department with options to renew at the same rent for two additional two-year terms. The first of the renewal options extending the lease to August 31, 1969, was exercised. The Department, in view of an expected decrease in the Reserve Force, decided not to exercise the second option but renegotiated the lease to provide for a month-to-month tenancy with an increase in the monthly rental from $1,862 to $2,500 effective September 1, 1969.

At March 31, 1972, the lease was still in effect although of the three militia units with a total strength of 166 on September 30, 1969, two had been disbanded by March 1970 and the remaining unit had a strength of 33 in March 1972. The cost of leasing these premises and related maintenance costs have been drawn to the attention of the Department by its internal audit division on two occasions since 1970. With a view to reducing costs, consideration has been given to various options available including leasing a smaller area in the same building, disbanding the unit, or relocating it in another building in Kitchener or in the departmental armoury in Galt some 12 miles away, but no decision has yet been made.

The cost of retaining this accommodation beyond March 31, 1970, when two of the militia units had been disbanded and the third had a strength of 82, appears excessive. The annual cost, including rental, caretaker services, heat and power, is approximately $45,000, or $115 per month for each member on strength in March 1972.

152. *Ex gratia payment to a contractor.* In June 1963 the Department of Supply and Services awarded a contract to the lowest of five tenderers for the supply of ten static converter power supply units to the Department of National Defence at a firm price of $155,000. The contract was subsequently amended to provide for the supply of one additional unit and for changes in federal sales tax increasing the cost to $177,000, and to revise delivery dates providing for a delay of almost 3 years. However, as a result of difficulties experienced by the contractor in meeting specification performance requirements, delivery of the units was not completed until April 1968.

In June 1968 the contractor requested an upward adjustment of $276,000 in the total price. Following lengthy negotiations between the two Departments and the contractor, it was finally agreed that, although under the terms of the contract there was no legal liability on the part of the Crown to pay these additional costs, the contractor should be compensated for the unreasonable length of time taken by the Department of National Defence to respond to requests by the contractor for permission to substitute components which did not strictly conform to military specifications and for a benefit received by that Department over a two-year period from an "interim" unit supplied by the contractor in April 1965 and rebuilt to production configuration in 1968.

In accordance with a 1958 Treasury Board directive on extra payments to contractors when there is no Crown liability, Treasury Board approval was obtained in March 1971 for a contract amendment authorizing payment of an additional $46,000 calculated on the basis of 50% of the costs incurred by the contractor for both the delays and the refurbishing of the "interim" unit. This amount was paid in October 1971 and the portion which was allowed in consideration of delays attributable to the Department of National Defence, $38,000, may be considered non-productive.

Because there was no legal liability this payment was, in our opinion, *ex gratia*. However, as it was not identified as such, it has not been reported in the Public Accounts, contrary to a recommendation of the Public Accounts Committee in its Second Report 1961 concurred in by the House of Commons on April 26, 1961.

153. *Repair cost resulting from inadequate design, Suffield, Alta.* In January 1971 Defence Construction (1951) Limited entered into a contract for the design, fabrication, supply, installation and start-up of a destructor for the thermal degradation of chemical substances, particularly the pesticide DDT, at Defence Research Establishment Suffield at a cost of $150,000. Installation and start-up of the facility were completed in June 1971 and full operation was achieved in October 1971.

The contract called for provision of a control console with all the temperature controls and safety shut-off equipment necessary for operation of the destructor. However, on October 22, 1971, a failure in the water supply caused a stoppage of water to the destructor resulting in extensive heat damage. The repair of the damage was completed by the contractor in March 1972 at a cost of $34,600 including $3,700 for additional controls.

Notwithstanding the apparent inadequacy of the control equipment designed and supplied by the contractor, the full cost of the repairs, $30,900, was absorbed by the Defence Research Board.

154. *Inability to express an opinion as to the correctness of the accounts and financial statements of the National Harbours Board.* In recent years we have repeatedly drawn the attention of the management of the National Harbours Board to inadequacies and weaknesses in the Board's accounting and administrative procedures and the system of internal control. Attention has been drawn to the matters of major concern in our 1969, 1970 and 1971 Reports to the House of Commons (paragraphs 130 to 138 in our 1971 Report). In our examination of the accounts for the year ended December 31, 1971, we found that the situation was unsatisfactory to the point where we were unable to express an opinion as to the correctness of the Board's accounts and financial statements, and consequently our report of May 30, 1972, to the Minister of Transport on the audit of the Board's accounts for the year ended December 31, 1971, included the following:

> The condition of the accounts and records of the Board during the year 1971 has continued to be unsatisfactory. It is therefore with regret that I have to advise you that I am unable to express an opinion as required by section 77 of the Financial Administration Act on the validity of either the accounts or the financial statements of the Board for the year ended December 31, 1971.

Subsequently, all the matters of audit concern were summarized in a letter to the Board's Chairman.

The continuing inadequacies and weaknesses disclosed by our test examinations, which made it necessary for us to come to this conclusion, are:

1. INADEQUATE DOCUMENTATION AND FOLLOW-UP. In recent years we have noted many instances of the Board's failure to require the completion of the necessary legal formalities before permitting its assets to be used by others. Such failures sometimes result in non-collection of revenue from customers or tenants or in litigation. Details of such instances were given on page 83 of our 1969 Report, page 75 of our 1970 Report and paragraph 130 of our 1971 Report. The situation noted in the course of our examination of the 1971 accounts is dealt with in paragraph 155 of this Report.

2. DEFALCATION AT MONTREAL HARBOUR. During 1971 the misappropriation of Board funds by a legal officer employed at the Montreal Harbour came to light through the confession of the employee responsible. The irregularities were made possible by lack of adequate internal control over compensation payments due to owners of expropriated properties. This case is fully described in paragraph 135 of our 1971 Report and paragraph 159 of this Report.

3. INADEQUATE PROVISION FOR DOUBTFUL ACCOUNTS RECEIVABLE. Inadequate provision was made in the Board's accounts for long-outstanding and doubtful accounts receivable totalling over $700,000 at the Quebec, Montreal and Trois-Rivières Harbours. Our examination of the accounts receivable disclosed numerous instances where customers' balances, some of them significantly in arrears, greatly exceeded the credit limits established for those customers.

4. FAILURE TO COMPLY WITH STATUTORY REQUIREMENTS WITH RESPECT TO CONTRACTS. The Board had not complied with the requirements of section 13 of the National Harbours Board Act, *R.S., c. N-8,* in the following instances:

   (a) Tenders were not called, and the approval of the Governor in Council was not sought, for the construction of a van carrier maintenance building at Centennial Pier, Vancouver Harbour. The work was carried out by the lessee at a cost of $73,000.

   (b) A $39,000 contract for the demolition of structures on expropriated properties in North Vancouver was entered into following invited rather than publicly advertised tenders.

   (c) Publicly advertised tenders were not called for the continuing service of cleaning up oil spills in Vancouver Harbour. During 1971, $73,000 was expended of which $67,000 was paid to one company for rendering the service on 18 occasions. In December 1972, the Governor in Council gave *ex post facto* approval of the payments made prior to December 31, 1971.

5. LACK OF INTERNAL CONTROL AT CHURCHILL HARBOUR. Four members of the same family including the port manager are involved in the administration and operation of this port. Abuses have occurred in the scheduling of work resulting in questionable amounts being paid for overtime, and we are concerned over a possible breakdown in internal control.

6. FAILURE TO TAKE A COMPLETE PHYSICAL INVENTORY, QUEBEC HARBOUR. For at least four years the stores inventories at Quebec Harbour with a book value of approximately $140,000

have not been physically counted. Each year we were advised by port management that steps would be taken in the then current year to remedy this situation. In the year ended December 31, 1971, when certifying the quantity and value of inventories to us, the port manager and district services officer stated:

> Again this year, no inventory was taken. The situation has not yet been resolved. Although some necessary corrections are reflected in [the stated value of inventory], arrangements will be made for a complete and thorough investigation in 1972.

Our test examinations in recent years disclosed that approximately 25% of the items counted by us differed from the stock ledger cards. However, we were advised by the Board in November 1972 that a complete physical inventory had been taken and the necessary adjustments recorded in the books.

7. LACK OF A BASIC SAFEGUARD IN A LEASE. A lease at Vancouver Harbour calling for a charge to be paid on each ton of cargo shipped does not include a provision enabling the Board to audit the lessee's records with respect to tonnage shipped or a provision that his auditor shall confirm the figures to the Board. We have been informed by the Board that it now has the tenant's permission to audit his records and that an audit is to be carried out.

8. REDUCTION OF WHARFAGE CHARGES WITHOUT APPROVAL OF THE MINISTER. Since 1968 a shipping company has rented Board property and is presently paying an annual rental of $217,000 for 844,000 square feet. One of the terms of the "Heads of Agreement" between the Board and this company is as follows:

> The Board will permit 50% of wharfage earned over Berth . . . in any lease year in excess of $100,000 to be applied by [the Lessee] . . . against moneys due to the Board in that lease-year in respect of buildings, land and railway.

In the past three years the company's reduction has equalled the rent paid. Although the Act requires that a reduction of charges in this way requires the approval of the Minister, the "Heads of Agreement" was not approved by the Minister and it was only in December 1972 that a formal lease was submitted to the Minister for approval. This lease includes the following clause concerning rebate of wharfage:

> That the Lessee shall be entitled to a rebate of 50% of the amount of the wharfage earned by the Board over the wharf at Berth . . in any lease-year in excess of $100,000.00 (which wharfage shall not be deemed to include demurrage); PROVIDED that such rebate shall not exceed the total of the rental payable under Section IV above for the respective lease-year and the rental payable by the Lessee to the Board for the respective lease-year under any siding agreements covering trackage serving the designated premises, which rebate shall be made to the Lessee by the Board with despatch shortly after all the wharfage so earned has been received by the Board . . .

9. FAILURE TO ASSESS OR DELAY IN ASSESSING CHARGES.

   (a) Harbour dues and berthage at Saint John Harbour incurred by a company during 1970 and 1971 were not invoiced until September 28, 1971, and at the same port the Board had not been assessing penalties for the removal of goods without releases and without unloading certificates as required under its by-laws.

   (b) Four years elapsed from the time hydro cables were installed on the Champlain Bridge, Montreal until bills were sent out in August 1971 for the easement.

Additional matters having a bearing on the accounts and financial statements of the Board are described in the following paragraphs in this Report:

156—Failure to verify basis of harbour dues

157—Harbour dues not collected on deck cargo

158—Amounts due to the National Harbours Board not recorded in its accounts

162—Dispute between the National Harbours Board and the Department of Public Works

The Board has informed us of its views on many of the matters raised by us and has indicated the steps taken or planned to remedy the inadequacies, weaknesses and inconsistencies. The matters are being looked into under the personal direction of the Chairman of the Board. However, in our opinion, the Board requires an experienced comptroller, with full authority to co-ordinate the efforts being made to strengthen the administrative, accounting and internal control procedures and to ensure that they are properly maintained in the future. The lack of such an officer is largely responsible for the unsatisfactory situation which has prevailed for several years.

155. *Inadequate documentation and follow-up.* In previous Reports (paragraph 130 in 1971) we have drawn attention to instances where the National Harbours Board had failed to require the completion of the necessary legal formalities before permitting its assets to be used by others. In May 1971 the Public Accounts Committee examined the corresponding paragraph in our 1969 Report (page 83) and in its Sixth Report to the House dated June 30, 1971, recommended

> that the National Harbours Board discontinue the practice of granting of the use of its assets to others prior to the signing of a contract; the absence of such a document can lead not only to disagreement and litigation but also to deprivation of the public purse over protracted periods. The Committee realizes that the Board is presently being reorganized and hopes that the type of difficulties including those of the legal department referred to under paragraph 122 will be eliminated in the future.

The matters presently remaining unresolved include the following:

1. THE ABSENCE OF A LEASE WITH AN OIL COMPANY FOR THE RENTAL OF SPACE, ST. JOHN'S HARBOUR, NFLD. The oil company vacated the property in 1967 and since then has been disputing rental charges of $47,000. Legal proceedings against the company are still in progress.

2. JOINT VENTURE AGREEMENT FOR THE OPERATION OF GRAIN ELEVATORS, SAINT JOHN, N.B. This agreement has been in effect since January 1, 1967, and permits the Board to examine the partner's records relating to the operation of the elevators. The Board has not yet made such an examination and has accepted its share of the profits as calculated by the partner.

3. THE ABSENCE OF LEASES WITH PRIVATE OPERATORS FOR THE OPERATION OF CERTAIN PIER FACILITIES, VANCOUVER, B.C. The leases with three operators have still not been completed despite the fact that the facilities have been operated by them since September 1968. The amounts due under tentative agreements with the operators are being paid on a current basis by two of them, but the third was approximately $270,000 in arrears at October 31, 1972. This amount is partially offset by an amount of $150,000 claimed by the operator from the Board.

4. LAXITY IN FINALIZATION OF LEASES AND REVISION OF RENTAL RATES. Five of the seven tenants noted in our 1971 Report as having occupied Board property at Montreal for periods of up to fifteen years without leases continue to do so. This year we noted two other tenants who are occupying Board property without leases. We noted last year that rental rates under two leases

that provided for rate revisions had not been revised. These leases have expired and although the former lessees continue to occupy the property only one of them has signed a new lease.

Two of the three tenants who occupied Board property at Quebec without leases continue to do so.

At Vancouver there has been no change for many years in the rentals under two leases which permit continued occupancy on a year-to-year basis after the original expiry date even though adjacent Board properties are commanding higher rates.

At Saint John, N.B., we have noted that six tenants have been occupying Board property without leases, one since 1959.

156. *Failure to verify basis of harbour dues.* Harbour dues in eastern Canadian ports are assessed on the gross registered tonnage of a vessel according to tariffs established by the National Harbours Board's by-laws which are approved by the Governor in Council. This gross tonnage is determined by computing the volume of the vessel's enclosed spaces in cubic feet and dividing by 100 to arrive at the tonnage figure. Because modern ship design permits changes increasing the carrying capacity of the vessel to be made quickly, for instance the temporary protection of deck space to carry additional cargo, the Board relies on ships' certificates in assessing dues rather than on the shipping registry as formerly was the case. However, the tonnage shown in many of these certificates was determined before the vessel was modified and steps are not ordinarily taken by the ports to ensure that the tonnage on which charges are based includes any additional capacity obtained by means of modifications. Although some certificates state the tonnage of the vessel when in open shelter-deck condition together with the tonnage of the vessel when in closed shelter-deck condition, the ports, because of inadequate scrutiny of incoming vessels, are unable to verify a claim that the lesser tonnage capacity is applicable.

Similarly, at the port of Vancouver, where the by-laws call for "net registered tonnage" to be used, the ship agent's declaration of tonnage is accepted without verification and forms the basis for the calculation of the revenue.

We understand that the problem with shelter-deck ships' certificates is a world-wide one and that attempts have been made to rectify it by an International Conference on Tonnage Measurement held in London in 1969. This Conference recommended a new basis for tonnage measurement which, however, has not yet been ratified by all countries.

In connection with this problem the Board has advised us as follows:

> It is a long-term problem which could be partially remedied if our by-laws were to be revised on a different basis. We are reluctant to do this because the new convention basis for tonnage measurement when fully ratified will be most beneficial for authorities whose charges are based on gross tonnage.
>
> We feel that the advice we have given the ports does not overrule or contravene the by-laws, but rather serves as guidance in a proper and practical application. It is possible that our advice has not been fully understood and we intend to clarify any possible misconceptions at an early date.

We are also advised by the Board that the by-law of the Vancouver Harbour covering dues will be changed to require gross tonnage to be used.

In our opinion every effort should be made by the Board to clarify and fully apply the harbour dues and berthage rates at the various harbours in order to ensure that the full amount of harbour dues properly payable is collected.

157. *Harbour dues not collected on deck cargo.* Timber, stores and other goods are sometimes carried on a ship's deck as deck cargo and the trend towards the containerization of cargo has resulted in ships frequently carrying more deck cargo. However, the tonnage figures used by the National Harbours Board in assessing harbour dues do not take deck cargo space into account and as a result revenue is being lost.

The Canada Shipping Act, *R.S., c. S-9,* (section 102) requires that the tonnage of the space occupied by any deck cargo be added to the ship's register tonnage for the purpose of determining dues payable on the ship's tonnage.

The Board contends that the Canada Shipping Act is not applicable as it refers to register tonnage (net tonnage) whereas the harbour dues by-law for eastern Canadian ports is based on gross tonnage, which includes space occupied by machinery and crew, and the Vancouver Harbour dues by-law will be changed shortly to gross tonnage from net tonnage. In any case neither tonnage, net or gross, includes deck cargo space which means that cargo going through National Harbours Board ports in this manner is not taken into consideration in determining dues payable on the ship's tonnage.

We are of the opinion that this deck cargo space should be taken into account, and the Board's by-laws revised accordingly in order to ensure that the full revenue to which the Board is entitled is being collected.

158. *Amounts due to the National Harbours Board not recorded in its accounts.* In accordance with the National Harbours Board Act, *R.S., c. N-8,* the harbour at Quebec comprises the St. Lawrence River and the shores thereof to the high water mark between specified points on either side of the City of Quebec.

Approximately 234 acres of this harbour property has been taken over by the following public bodies without payment of compensation to the National Harbours Board:

Province of Quebec, Department of Roads—	
Beauport Flats	105 acres
Wolfe's Cove	26 acres
Canadian National Railways—	
Beauport Flats	103 acres
	234 acres

No claim has been made by the Board for compensation for this land nor is any amount recorded in the accounts as receivable with respect to it.

The value of the land at Beauport Flats, excluding the value of fill provided by the occupants, is estimated at from $350,000 to $1,000,000. The ownership of a portion of this land is in dispute between the Federal and Provincial Governments and the Board considers that no asset should be recorded in the accounts until the question of ownership is resolved.

The value of the land at Wolfe's Cove is estimated at $274,000.

In our opinion the Board should establish its position with respect to the Beauport Flats land, submit claims with respect to all the properties, record them in its accounts and vigorously pursue a settlement with the Province and the Canadian National Railways.

159. *Defalcation by National Harbours Board employee.* We reported last year (paragraph 135) that in September 1971 a legal officer of the National Harbours Board had confessed to having misappropriated Board funds by forging the payee's endorsement on cheques issued in the names of the former owners of expropriated property on certain islands in the St. Lawrence River near Montreal. The cheques had been turned over to the legal officer for delivery to the payees in exchange for deeds of acquittance.

On November 1, 1971, the Board employed a firm of public accountants to ascertain the extent of the defalcation and to make recommendations to avoid recurrence of a similar situation. The firm's report to the Board on December 22, 1971, indicated that on 23 occasions between 1967 and 1970 the legal officer had forged the payee's endorsement on cheques totalling $51,000. He subsequently paid $1,400 to three former owners reducing the defalcation to $49,600. The recommendations contained in the report have not yet been completely implemented.

The legal officer was prosecuted and sentenced to two years in penitentiary. The Board claimed reimbursement of the loss from the bank which had accepted the forged endorsements. The bank reimbursed the amount of one cheque, $3,800, and subsequently offered a further $30,000 in full settlement of the claim. Six weeks later the offer was withdrawn and the bank sought relief from its liability on an *ex gratia* basis referring to an undertaking given on June 30, 1965, by the then Minister of Finance to The Canadian Bankers' Association that the Treasury Board was prepared to consider representations from banks and to recommend relief on an *ex gratia* basis in the following cases:

1. Where a person having the same name as the payee receives a cheque because the cheque was sent to an incorrect address or where an insufficiently precise address was used as a result of negligence or carelessness on the part of Crown employees.

2. Where the issue of cheques is obtained by means of fraudulent practices by public servants.

3. Where the bank is not advised of a forgery within a reasonable time after the Crown becomes aware of a forgery (a reasonable time for this purpose to be considered one year).

The Treasury Board has not yet acted on the National Harbours Board request that the bank be relieved of its obligation and be repaid the amount of $3,800 previously paid by it. An amount of $3,700 due to the former legal officer under the Public Service Superannuation Act is being held to be applied against the defalcation, the balance of which is to be charged to the Public Officers Guarantee Account. However, this does not relieve the National Harbours Board of its responsibility to continue its efforts to recover the full amount of the loss and to refund to the Public Officers Guarantee Account any amounts recovered.

Since the cheques in question were not issued by means of fraudulent practices by public servants, the bank in our opinion is not entitled to relief under item 2, or either of the other items, of the undertaking given to The Canadian Bankers' Association.

160. *Contract for the construction of a survey and inspection vessel.* In paragraph 136 of our 1971 Report we referred to a contract entered into in May 1970 by the National Harbours Board with the low tenderer for the construction of a survey and inspection vessel for use in Montreal Harbour at an estimated cost of $208,000. The scheduled completion date under the contract was November 2, 1970.

The Board ordered the work under the contract to be stopped in April 1971 as the billings were then near the contractual amount and the vessel was far from complete. In March 1972 the Board obtained authority to spend an additional $96,000 to complete the vessel. This brought the estimated cost of the vessel to $304,000 which was $58,000 more than the amount of the second lowest tender in 1970. Another contract was entered into with the same shipbuilder and this time the date of completion was fixed at June 30, 1972.

Payments total $252,000 and progress claims totalling $48,000 remain to be paid under the completion contract. The vessel was launched in December 1972 but there is no indication as to when it will be ready for acceptance by the Board.

The original contract contained a penalty clause as follows:

Without restricting or affecting any other rights or remedies of the Board under this Contract: where the Contractor does not complete the work by the day fixed by Clause 1 for completion of the work but does complete the work thereafter, the Contractor shall pay to the Board

(a) an amount equal to all salaries, wages and travelling expenses paid by the Board to persons superintending the work during the period of delay;

(b) an amount equal to the value to the Board of the use of the completed work for the period of delay; and

(c) an amount equal to all other expenses and damages incurred or sustained by the Board as a result of the work not being completed during the period of delay.

One of the terms of the second contract was that the Board retain a total of $8,900 from the contractor's holdback and security deposit, in consideration for which it waived any further claim under the penalty clause.

However, the second contract contained an identical penalty clause and, as the contractor is already six months beyond the delivery date specified in the contract, the Board will have a claim against him for costs incurred by it during the period of delay. When we asked officers of the Board if they were recording their costs in anticipation of making such a claim, we were advised that they were not.

161. *Ex gratia payment by National Harbours Board.* In 1961 the National Harbours Board began negotiations with a prospective tenant for the lease of property at Montreal Harbour. However, it was not until 1969 that a lease was executed for a term of 17 years commencing in 1966. The delay of eight years was in part due to small portions of the proposed leasehold being under the administration of the Canadian National Railways and The St. Lawrence Seaway Authority. Although the tenant had occupied the property continuously from 1962 the Board received no rent until January 1967, when the tenant was charged $71,000 for the period from October 1, 1962, to September 30, 1966. Thereafter the rent payable under the lease was $28,000 per annum.

In 1965 the Board learned that a portion of the occupied property was required by the Canadian Corporation for the 1967 World Exhibition. The tenant agreed to a change in the site but claimed $202,000 for costs incurred in improvements to the area vacated. Although the Board was of the opinion that no legal claim existed because the expenditures were made by the tenant in the absence of a lease, it felt that compensation should be paid as the tenant had acted in good faith and had grounds for believing that a lease would be granted.

In September 1971 the Governor in Council approved an *ex gratia* payment of $56,000 to the tenant.

162. *Dispute between the National Harbours Board and the Department of Public Works.* In the past two years (paragraph 137 in 1971) we have referred to a dispute between the National Harbours Board and the Department of Public Works relating to water consumption at Quebec Harbour in the years 1958 to 1967. We suggested that the Board cancel its charge of $52,000 against the Department for water supplied between September 1964 and June 1967, because the water supplied in this period was charged directly to the Department by the City of Quebec, and that it refund the amount of $25,000 claimed by the Department with respect to water supplied between September 1958 and April 1964 because the Department had paid both the Board and the City for the water supplied in this period.

The Board had agreed to these suggestions but stated that it would not give effect to them until the Department paid annual charges to cover maintenance, return on capital cost and an easement over other Board property with respect to the

water supply line. This was the first time that the question of these charges had been raised and the Board advised the Department in April 1971 that they amounted to $55,000.

It was not until February 1972 that the Department formally denied liability, taking the position that the rental it was paying to the Board covered use of the property including the water supply line. In support of this it pointed out that the water supply line which had been constructed around 1950, a number of years before the construction of the buildings on the property rented by the Department, served other properties as well as fire hydrants and that the Department had paid for at least part of the cost of connecting the property rented by it at the time of construction. Furthermore, when the property was rented from the Board it was at no time envisaged that a separate charge would be made for the use of the water supply line. The Board is reconsidering its position and as a consequence no agreement has been reached.

It is difficult to understand how a dispute between government organizations revolving around events which had their origin many years ago could be permitted to go unresolved month after month. It is of course completely illogical that because of this unresolved dispute the Board should retain on its books an account receivable from the Department of Public Works for $52,000 which everyone agrees is not owing and refuse to include in its accounts an obligation of $25,000 to the Department which amount everyone agrees was paid to the Board by the Department in error in the years 1958 to 1964.

163. *Provincial payments to federal hospitals under the Hospital Insurance and Diagnostic Services Act.* We have referred in our Reports for the past eight years (paragraph 139 in 1971) to our inability to determine whether the terms of the agreements with the various provinces under the Hospital Insurance and Diagnostic Services Act, *R.S., c. H-8,* relating to payments to federal hospitals, were being observed in all cases due to the inadequacy of accounting and medical records in some hospitals and to the delay in the preparation and submission of returns and billings. With two exceptions, Frobisher Bay General Hospital and Inuvik General Hospital, the situation is now satisfactory. However, until such time as these two hospitals furnish budgets and financial returns on a current basis, it will not be possible for us to determine whether per diem rates being received by them are equitable.

164. *Frauds in the Old Age Security Program.* In previous Reports (paragraph 142 in 1971) we have referred to frauds amounting to $1,039,000 in the Old Age Security Program that an investigation had disclosed in 1969 following a routine check by the Department of National Health and Welfare of undelivered cheques at one regional office. Recoveries of about $532,000 had been made and the investigation was continuing.

Further investigation by the Department has disclosed additional irregular payments bringing the total to $1,044,000 at October 31, 1972, of which $617,000 has been recovered.

165. *Guaranteed income supplement.* The Old Age Security Act, *R.S., c. O-6,* provides for payments by the Department of National Health and Welfare, to pensioners under the Act, of a supplement to their monthly pension based on their income in the previous year if that income was below a stipulated amount. To obtain the supplement the pensioner must make an annual application showing his income for the preceding year. In previous Reports (paragraph 143 in 1971) we have drawn attention to overpayments of guaranteed income supplement that were being disclosed through the Department's annual test of the income for the previous year as shown on the application for the supplement with that determined for income tax purposes for that year. Formerly these tests covered approximately 5% of the applications submitted. However, the test made in 1972 of 1971 income was increased to 10%.

The following table shows the amount of the overpayments disclosed in each of the past six years:

	Income checked	Overpayments disclosed
1967	1966	$ 188,000
1968	1967	173,000
1969	1968	267,000
1970	1969	518,000
1971	1970	222,000
1972	1971	262,000

Failure to detect and adjust overpayments encourages the understatement of income in applications for the supplement. In our opinion the present check, much of which is carried out manually, covering the total case load only once in ten years, must still be considered too small. Consideration should be given to a more extensive use of a computer to match the previous year's income shown on all applications for the supplement with the tax returns for that year.

166. *Final benefit calculations under the Canada Pension Plan.* When an application is received by the Department of National Health and Welfare for a benefit under the Canada Pension Plan, *R.S., c. C-5,* the amount of the entitlement cannot be finally calculated until information with respect to earnings and contributions during the final period of employment of the applicant is received from the Department of National Revenue, which is responsible under Part I of the Plan for the collection of contributions. Final reports for a taxation year are not available until approximately 11 months after the close of the year.

In order that an applicant may receive an immediate pension, section 60 of the Plan provides for payment of an interim benefit. This benefit is based on the information contained in the record of earnings, compiled from reports of the Department of National Revenue, and on information provided by the applicant with respect to his final period of employment. Section 60 also provides for payment to the beneficiary of any underpayment, or collection of any overpayment, when final calculations are made.

Retirement benefits first became payable under the Plan in January 1967, survivor benefits in February 1968 and disability benefits in February 1970. At December 31, 1970, a total of 294,000 awards, including 46,000 lump-sum payments of death benefits, had been made of which 233,000 were still in payment. These benefits, which were calculated on an interim basis under the provisions of section 60 of the Plan, could have been finally calculated by March 31, 1972, from the reports for the taxation years 1966 to 1970. In a limited test of interim earnings, on which survivor benefit calculations were made in 1968, and actual earnings we found variances in more than 25% of the cases, of which about 30% represented possible overpayments.

Last year (paragraph 144) we reported that the Department had made no final calculation of the awards although actual earnings information from the Department of National Revenue had been made available for each year up to 1969. In June 1972 the Department commenced its review of awards for active retirement pensions and, at December 31, 1972, 210,059 had been reviewed for the years 1967 to 1971, disclosing 51,587 underpayments and 9,026 apparent overpayments. These underpayments totalling $2,273,000 have been corrected. However, there has not yet been any calculation of the amounts overpaid and none is to be made until a review is carried out of pensions which are no longer active, and of death, survivor and disability benefits, and any underpayments disclosed are adjusted.

As this delay in adjusting overpayments can only result in increased overpayments and a reduced possibility of recovery, it cannot be considered satisfactory.

167. *Determination of "sale price" for sales tax purposes.* In previous Reports (paragraph 149 in 1971) we have drawn attention to the practice of the Department of National Revenue of collecting sales tax in certain circumstances on lesser amounts than the "sale price" of manufactured goods, although section 27 of the Excise Tax Act, *R.S., c. E-13*, requires sales tax to be calculated on the "sale price".

The Auditor General drew attention to this matter in 1946, and on January 12, 1956, a Sales Tax Committee, which had been appointed to review and advise upon certain technical questions relating to the administration of the sales tax, stated in its report that "the Act does not appear to authorize the Minister to vary actual selling prices or to impute wholesale prices when they do not exist". The Committee recommended that "the existing scheme of valuation be continued for the present with statutory sanction".

In its Eighth Report 1964-65 which was presented to the House of Commons on December 7, 1964, the Public Accounts Committee recommended (see Appendix 1, item 10):

> that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

The Committee mentioned the matter again in its Fourth Report 1969-70 and, in a letter to the Chairman of the Committee on November 25, 1970, concerning action taken on matters referred to in that Report, the Minister of National Revenue stated that this matter represented a most difficult legal and practical problem on which the Department has been working with the Department of Finance for some time. The Minister again wrote the Committee on April 20, 1972, along the same lines but the Committee has not yet given consideration to either letter.

168. *Delay in collecting sales tax.* In previous Reports (paragraph 150 in 1971) we have referred to a requirement of section 27 of the Excise Tax Act, *R.S., c. E-13,* that licensed manufacturers pay sales tax on fully manufactured goods purchased for resale.

Some licensed manufacturers prefer to collect sales tax on all their sales, including sales of fully manufactured goods purchased by them for resale. In such cases the Department of National Revenue by regulation permits them under certain conditions to immediately deduct any sales tax paid on these purchases from amounts currently due to the Department with respect to their taxable sales. The effect of this regulation is that some manufacturers' inventories of fully manufactured goods purchased for resale are carried free of sales tax and the requirement of the law that sales tax be paid at the time of purchase of fully manufactured goods for resale is completely negated in these cases.

During its consideration of our 1968 Report the Public Accounts Committee dealt with this matter and in its Fourth Report 1969-70, which was presented to the House of Commons on June 23, 1970, expressed the opinion that the practice being followed was less cumbersome than the practice called for by section 27 of the Excise Tax Act and that an amendment should be sought. (See Appendix 1,item 29.)

In writing to the Chairman of the Public Accounts Committee the Minister of National Revenue has stated that the opinion expressed by the Committee that an amendment to the Excise Tax Act should be sought had been noted by the Department and that an appropriate statutory amendment forms part of the Department's legislative program. The Department has since made a change in the regulation to specify that permission to deduct such sales tax paid, from amounts due the Department, may be granted only when sales of the goods obtained for resale are small in relation to total sales of goods of the licensee's manufacture and goods are either for sale with goods of the licensee's manufacture at an all-inclusive price or are similar to and intended to round out the regular lines manufactured.

169. *Concessions made to motor vehicle manufacturers.* In previous Reports (paragraph 151 in 1971) we have drawn attention to the matter of concessions made to motor vehicle manufacturers because of the responsibility of the Auditor General to examine and ascertain not only that all public moneys are being fully accounted for, but that the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of the revenue.

We expressed the view that, as long as there are conditions to be met before a motor vehicle manufacturer qualifies for duty-free importation under the various programs involving concessions to such manufacturers, it is essential that adequate procedures and accounts be set up by the Department of National Revenue since it is the responsibility of that Department to take and maintain the initiative in assessing and collecting taxes due to the Crown.

Our examinations had disclosed that the procedures followed by the Customs and Excise Division of the Department in administering the Motor Vehicles Tariff Order 1965 were not adequate to protect the revenue and that it was essential that the Department take steps to strengthen its administration of the program to ensure that the importers concerned did not benefit from concessions beyond those approved by the Governor in Council and that revenues due to the Crown were promptly collected. This situation remains the same.

Our comments on this subject in our 1968 Report were examined by the Public Accounts Committee at meetings held on June 10, 12 and 17, 1969, when officials of the Department of National Revenue, the Department of Industry, Trade and Commerce and the Department of Finance were questioned. The Committee has not yet reported to the House on these meetings.

As noted in our 1971 Report, a major motor vehicle manufacturer became liable for duties and sales tax on duties in the amount of $6 million, for the year ended July 31, 1970, because it had failed to meet the requirements of the conditional remission order, P.C. 1970-1536 of September 9, 1970. This order was subsequently amended by conditional remission order P.C. 1972-214 of February 10, 1972, with the effect that the conditions were met and hence the $6 million was remitted. This remission is included among those reported on page 12.5 of Volume I of the 1971-72 Public Accounts.

For the year ended July 31, 1971, all motor vehicle manufacturers importing under the Motor Vehicles Tariff Order 1965 or similar conditional orders met the conditions of those orders and consequently there were no duties or sales tax on duties owing under those orders at March 31, 1972.

170. *Remissions granted by the Governor in Council under section 17 of the Financial Administration Act.* Section 17(1) of the Financial Administration Act provides that:

> The Governor in Council, on the recommendation of the Treasury Board, whenever he considers it in the public interest, may remit any tax, fee or penalty.

and subsection (8) requires that:

> A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the Public Accounts.

In accordance with this requirement, remissions of one thousand dollars or more are reported in Volume I of the Public Accounts. However, in the case of remissions of duty on machinery and parts under tariff item 42700-1 (machinery program) the normal practice is not followed in that names are not shown.

As in previous years, the majority of the remissions pertain to customs and excise duties and excise taxes administered by the Customs and Excise Division of the Department of National Revenue. The totals of the remissions with respect to this Division for which amounts appear in the Public Accounts in each of the past five years are as follows:

1967-68	$ 29,506,000
1968-69	197,308,000
1969-70	179,826,000
1970-71	117,095,000
1971-72	139,769,000

In addition to the remissions for which amounts are shown, a number are granted where the amounts involved are not accumulated or cannot be readily determined. In such cases, a narrative description of the remission is included in the Public Accounts.

Remissions relating to tariff item 42700-1 (machinery program) amounted to $77.7 million compared with $71.4 million in 1970-71. This program was introduced by the Department of Industry, Trade and Commerce in December 1967 to enable Canadian industries to import capital equipment duty-free whenever the Governor in Council considers that it is in the public interest and that the goods are not available from production in Canada.

Remissions on goods or equipment imported into Canada on a temporary basis amounted to $25.3 million in 1971-72 compared with $16.9 million in 1970-71.

Remissions totalling $9.7 million compared with $15.2 million in 1970-71, were granted during the year to Canadian airlines making use of their aircraft in international as well as domestic service. The percentage of duties and taxes remitted is the percentage that international usage bears to total usage.

171. *Corporate manipulations to avoid payment of income tax.* Five Canadian corporations were controlled by the same shareholders. Four of these corporations had surpluses totalling $1.2 million and the shareholders set out to withdraw these surpluses without having the corporations declare dividends which would be subject to income tax in their hands.

The following chronicle describes the manipulations carried out by the shareholders in attempting, unsuccessfully, to avoid assessment of income tax on distribu-

tion of these surpluses and in later successfully avoiding payment of the tax that was assessed:

1. One of the corporations, "A", with borrowed funds, acquired the shares of the other four corporations for $1.5 million, thus making them its subsidiaries.

2. Each of the four subsidiaries made a cash loan equal to its surplus (a total of $1.2 million) to a new corporation formed by senior officials of corporation "A" in exchange for non-interest-bearing notes. These officials were not shareholders of any of the other corporations and therefore the new corporation was a non-associated corporation.

3. The new non-associated corporation immediately loaned the $1.2 million cash to corporation "A" in exchange for non-interest-bearing notes, and corporation "A" used this amount to repay the money it had borrowed to enable it to acquire the subsidiaries.

4. The four subsidiary corporations were amalgamated to form a new corporation, "B".

5. Another new corporation, "C", was formed which immediately acquired, in exchange for a note in the amount of $2.6 million, all the assets and liabilities of corporation "B" including the $1.2 million of non-interest-bearing notes of the non-associated corporation which corporation "B" had acquired in the amalgamation of the four subsidiary corporations. Corporation "C" also acquired all the assets and liabilities of corporation "A", except its investment of $1.5 million in corporation "B" which resulted from the amalgamation of the four subsidiary corporations to form corporation "B", but including its operating assets and corporation "A"'s liability of $1.2 million with respect to the non-interest-bearing notes held by the non-associated corporation. In these transactions, corporation "C" acquired from corporation "A" an indebtedness of $1.2 million to the non-associated corporation and from corporation "B", a loan receivable of the same amount from the non-associated corporation. These assets and liabilities were immediately settled by offset and as they represented the only assets and liabilities of the non-associated corporation, it was wound up.

6. In a series of transactions through associated companies, corporation "B" exchanged its note receivable from corporation "C" for a note of a Bahamian company.

When the Department of National Revenue became aware of the manipulations which had taken place, it assessed corporation "A" pursuant to section 16(1) in conjunction with section 8(2) of the Income Tax Act, *R.S. 1952, c.148*. The amount owing by corporation "A" as a result of this assessment is $939,000 including interest of $342,000. Corporation "A" appealed the assessment to the Exchequer Court but 20 months later abandoned the appeal.

The only remaining asset of corporation "A" was its investment of $1.5 million in corporation "B" while the only asset of corporation "B" was its note receivable from a Bahamian corporation. The Department is not likely to realize anything from this source because of the apparent inability of any government to make use of the courts of another country for tax collection purposes.

This recital of manipulations deals only with the circumstances surrounding the Department's assessment of corporation "A" and its inability to collect $939,000 owing by that corporation. It does not by any means include all of the transactions employed in attempts to avoid or minimize tax. The shareholders control many corporate bodies and subsequent to the manipulations described, their principal

working assets have been transferred to a Canadian corporation which was a subsidiary of a United States corporation also controlled by them.

There is an obvious need for a more stringent control to prevent corporate manipulations to avoid the payment of income tax or to transfer assets outside of Canada, thereby rendering the collection of income taxes difficult if not impossible.

172. *Income tax owing by non-residents.* In previous Reports (paragraph 153 in 1971) we have referred to the deletion from the accounts of income tax owing by taxpayers from whom collection could not be effected because they were no longer resident in Canada.

During the year such deletions amounted to $1,102,000 owing by 1,026 taxpayers. This compares with deletions in the previous year of $176,000 owing by 471 taxpayers.

An instance was noted in the audit where the Department of National Revenue, learning that a taxpayer was in the process of selling his real estate with the intention of leaving Canada, raised an assessment which directed that all taxes, penalties and interest assessed be paid forthwith. However, the taxpayer advanced by two weeks the closing date for the sale and on its completion transferred $400,000 to Switzerland. The taxpayer and his family then left Canada leaving an income tax indebtedness of $175,000 which the Department considers uncollectable.

We reiterate the view expressed in previous years that the continuing problem of collecting income tax from non-residents is aggravated by the fact that a person emigrating from Canada is not required to obtain a tax clearance before departure, by the lack of any agreement with other countries for the collection of tax on a reciprocal basis, and by the apparent inability of any government to make use of the courts of another country for tax collection purposes.

There is a similar problem with respect to some residents of Canada living near the United States border who are employed in the United States. Such persons are taxable in Canada on their income, whether earned in the United States or Canada, but collection becomes impossible if the resident arranges to keep in the United States any assets which might be seized.

The Public Accounts Committee in its Fourth Report 1969-70 stated that

> this is an area where the government should take immediate steps, perhaps by a series of agreements with other countries as well as developing its own internal procedures, to minimize the evasion of payment of income tax by persons leaving Canada or removing assets from Canada.

The Department has not responded to this statement by the Committee and no reciprocal agreements for the collection of taxes have been negotiated with other countries to date. However, we have been informed by the Department that "The current level of taxpayer compliance in this category would not appear to justify the establishment of a mandatory tax clearance system particularly when the anticipat-

ed benefits are weighed against the problems of administration and the inconvenience to international travellers that would result."

173. *Reduction of taxable income by distribution of management bonus to shareholders.* A corporate taxpayer in the years 1963 to 1967 had 150,000 common shares outstanding of which 148,400 were controlled by three shareholders. Two of the three shareholders, each owning 25% of the 148,400 shares, were residents of the United States and the third shareholder was a Canadian corporation owning 50%.

One of the shareholders in the United States acted as the taxpayer's lawyer through his legal firm in that country, which was employed on a retainer basis. The Canadian corporate shareholder provided management services to the taxpayer for an annual fixed fee established by an agreement.

For the years 1963, 1964 and 1967 the taxpayer's expenses included management bonuses totalling $367,000 which resulted in the taxable income being reduced to less than $35,000 in each year, thus providing for the payment of corporate taxes at the lowest rate. The bonuses were paid to the three shareholders in direct proportion to their ownership interest. In those years dividends were not declared. However, for 1966 when taxable income was already below $35,000, a dividend instead of a bonus was paid.

Fifty per cent of the bonuses were paid to residents of the United States and no Canadian tax was exigible as any services provided must have been rendered outside Canada. The management service agreement entered into with the Canadian corporate shareholder spelled out the terms of compensation and contained no mention of bonus.

The Department of National Revenue considered reassessing the taxpayer to disallow the bonus amounting to $132,000 for the 1967 taxation year (prior years were statute barred) but this was not done, and the taxpayer thus succeeded in reducing taxable income and in putting money into the hands of shareholders through a charge to operations rather than to surplus. Furthermore the withholding tax on dividends paid to non-residents was thus avoided.

174. *Insufficient penalty for late payment of income tax.* In previous Reports (paragraph 155 in 1971) we have drawn attention to the substantial amounts of income tax remaining unpaid at March 31 of each year. We have suggested that the imposition of penalties for late payment, over and above the 6% which was payable on taxes paid after the due date under the provisions of the Income Tax Act, *R.S. 1952, c.148*, could be of material assistance to the Taxation Division of the Department of National Revenue in collecting its outstanding accounts.

Unpaid income tax at March 31, 1972, amounted to $506 million compared with $425 million at March 31, 1971, and $333 million at March 31, 1970.

An amendment (*1970-71-72, c.63*) to the Income Tax Act modified the provisions applicable to the payment of interest by taxpayers and section 161(1) of the Act now provides that:

> Where the amount paid on account of tax payable by a taxpayer under this Part for a taxation year before the expiration of the time allowed for filing the return of the taxpayer's income is less than the amount of tax payable for the year under this Part, the person liable to pay the tax shall pay interest at a prescribed rate per annum on the difference between those two amounts from the expiration of the time for filing the return of income to the day of payment.

However, the rate now prescribed by regulation is 6%, the same rate that was formerly provided by the Act.

175. *Cost of reprinting new income tax forms due to change in legislation.* In July 1971 the Department of Supply and Services awarded contracts for the supply of income tax forms and various tax schedules for the Department of National Revenue at a cost of $381,000. However, tax legislation enacted in the latter part of the year reducing the 3% surtax imposed on individuals to 1 1/2% for the 1971 taxation year made the new forms and schedules obsolete.

Production was stopped and because of the time requirements for the replacement of the forms, changes could only be made by the original printer. He was paid an additional $123,000 for the necessary reprinting.

176. *Losses on Post Office services.* For a number of years (paragraph 158 in 1971) the attention of the House has been drawn to the continuing loss suffered by the Post Office on the handling of second class mail. This annual loss rose to a peak of $41.8 million in 1968-69, but through increases in postage rates was down to $33.2 million in 1971-72. Recommendations of the Royal Commission on Government Organization that "an annual grant be made by Parliament in an amount sufficient to cover the costs of the Post Office in handling second class mail" and of the Public Accounts Committee that "the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail", have not been acted upon.

The overall loss on postal operations which reached an all-time high of $100.6 million in 1970-71 was reduced to $85.5 million in 1971-72 as a result of increases in postal rates. This overall loss is due to losses totalling $91,510,000 on the following services, for which costs and revenues and the comparable loss figures for the previous year are shown:

Service	1971-72 Cost	1971-72 Revenue	1971-72 Loss	1971-72 % of cost	1970-71 Loss	1970-71 % of cost
Mail—						
First class	$ 271,891,000	$ 247,235,000	$ 24,656,000	9.1	$ 30,942,000	12.6
Second class	47,401,000	14,158,000	33,243,000	70.1	35,176,000	71.8
Third class	96,292,000	74,595,000	21,697,000	22.5	23,760,000	30.3
Government	27,707,000	27,510,000	197,000	.7	186,000	.8
Other—						
Registration	22,750,000	15,286,000	7,464,000	32.8	2,789,000	15.1
C.O.D.	7,392,000	4,565,000	2,827,000	38.2	2,712,000	36.1
Lock box	6,608,000	5,182,000	1,426,000	21.6	416,000	7.6
	$ 480,041,000	$ 388,531,000	$ 91,510,000		$ 95,981,000	

The costs shown are all-inclusive in that they include the value of services provided to the Post Office by other departments. The revenue figures are also all-inclusive in that in addition to the cash revenue received by the Post Office for its services, they include the value of mail service which the Post Office is required by the Post Office Act, *R.S., c. P-14,* to provide without payment of postage.

During the year there were increases in the basic rate for first class mail from 6 cents to 7 cents on July 1, 1971, and to 8 cents on January 1, 1972, and increases in third class mail rates and money order fees with effect from July 1, 1971. In addition, an amendment (*1970-71-72, c.53*) to the Post Office Act, assented to on June 30, 1971, provided that with effect from April 1, 1972,

> Mailable matter sent to or by any department of the Government of Canada is subject to Canada postage in accordance with such regulations as are made in that respect by the Governor in Council.

Thus, the statutory free carriage of first class mail for government departments was eliminated and all such postal services are paid for by departments at regular rates. However, there are two exceptions: the Canada Elections Act, *R.S. (1st Supp.), c.14,* and the National Transportation Act, *R.S., c. N-17,* contain provisions for the carrying of mail free of postage so that the Chief Electoral Officer and the Canadian Transport Commission continue to enjoy the "free mail" privilege. Until these statutes are amended the Post Office will continue to subsidize the Canadian Transport Commission to the extent of some $35,000 annually and the Chief Electoral Officer to the extent of some $56,000 annually with the amount rising to about $1,000,000 in an election year.

177. *Post Office retail activities.* In 1968 consultants were employed to examine the feasibility of the Post Office becoming a Crown corporation and to identify critical problem areas. One of the areas reported as requiring study was marketing, so the Post Office established a Marketing Task Force headed by another consultant. The Task Force's report, submitted in July 1969, recommended further development of existing services and products and the introduction of new services and products in order to utilize fully the marketing potential of the postal outlets. With

Treasury Board approval a Marketing Branch of the Post Office, involving the creation of 177 new positions, was established in March 1971. The annual cost of the Branch was estimated at $1,000,000 for Headquarters and $1,500,000 for field activities.

In addition to the sale of philatelic and other postal items the Branch embarked upon a program of sales to the public of a number of miscellaneous items such as coin sets, commemorative spoons, art prints, Canadian handicrafts, etc. While some of the items were purchased from other government departments and agencies, such as the Department of Indian Affairs and Northern Development and the Royal Canadian Mint, other articles were bought from commercial suppliers. However, there are no established policies governing sales, inventories or other facets of the activity. Furthermore, such activities require working capital but Parliament was not asked to provide a working capital advance for this undertaking and all purchases of merchandise have been charged directly to the Post Office vote for operating expenditures.

Whether or not the program was profitable in 1971-72 could not be determined as suitable accounts were not established for the activity and overall operating statements have not been prepared.

It is questionable whether the sale of non-postal items falls within the powers granted to the Postmaster General under the Post Office Act, *R.S., c. P-14*, and we have suggested to the Deputy Postmaster General that he seek the opinion of the Department of Justice on this point. He has expressed his wish to clarify any ambiguity or eliminate any future debate as to the exact measure of authority of the Postmaster General in this new field of the Canada Post Office activities, and has included in the Department's proposals for legislative action for the 1973 Session an additional provision in section 5 of the Act which will provide for retail services by the Canada Post Office which would be complementary to the postal service. In the meantime, he feels there is little to be gained by seeking any further opinion from the Department of Justice.

178. *Failure by a postmaster to account for C.O.D. parcels*. In June 1970 a Post Office inspector found that since August 1969 a postmaster had failed to account for C.O.D. parcels in the amount of $14,000. Although there has been considerable correspondence between Headquarters and the responsible District Office since that time, there had been no direct action either to obtain reimbursement from the postmaster or to dismiss or otherwise discipline him. At March 31, 1972, C.O.D. parcels were still not being accounted for and the shortage had increased to over $17,000.

Since August 1972 all C.O.D. parcels for the area have been directed through another Post Office. In September 1972 the first Post Office caught fire and the subsequent investigation disclosed that the shortage had increased to $21,000. The resignation of the postmaster was then accepted and another postmaster appointed on a temporary basis.

179. *Expenditure made without proper authority.* Under the Government Contracts Regulations, established under section 34 of the Financial Administration Act, the approval of the Treasury Board is required when the amount payable under certain types of service contracts exceeds $5,000 and tenders have not been obtained or when the period, term or amount of a contract previously entered into with the authority of the Treasury Board is to be increased by more than ten per cent.

The Post Office Department has not complied with these Regulations in the following instances:

1. Payments under a contract to develop a colour scheme and create a commercially oriented image for the Canada Post Office, approved by the Treasury Board in the amount of $50,000, exceeded the contract amount by $36,000 at March 31, 1972, with an additional $21,000 expended in 1972-73 without any further reference to the Treasury Board.

2. Under four contracts involving stenographic, editing or management consultant services which had been entered into without calling for tenders, payments were permitted to exceed $5,000 without reference to the Treasury Board. The expenditure incurred without proper authority in these cases totals $34,000.

3. A contract which had been approved by the Treasury Board for the provision of talent in the field of pricing and marketing at a cost of $23,000 over a period of one year was extended eleven months at an additional cost of $20,000 without further reference to the Treasury Board.

We have been informed by the Post Office that steps have been taken to avoid a recurrence of these breaches of the Regulations.

180. *Additional costs due to delay in awarding contracts for highway services.* Section 33 of the Post Office Act, *R.S., c. P-14*, permits the Postmaster General to make temporary arrangements for the conveyance of mail until a regular contract is entered into.

Our review of contracts pertaining to highway services disclosed instances where delays in calling tenders and awarding contracts prior to the expiration of existing contracts resulted in services being operated under temporary arrangements at rates greater than those stipulated in contracts subsequently entered into. Four cases were noted during the year where temporary arrangements resulted in an additional expenditure of $91,000.

A number of other cases were noted where services have continued for several years under temporary arrangements at rates equal to or greater than those set out in the expired contracts.

181. *Language training costs.* One of the activities of the Public Service Commission is language training for which funds are provided by Parliament "to facilitate the use of two official languages in the Public Service and operation of French and English language schools for public servants including curriculum and test development".

In 1971-72 expenditure by the Public Service Commission on language training was $9,406,000 compared with $6,802,000 in 1970-71. This amount includes the cost of facilities, teachers' salaries and other operating expenditures. In addition, language training costs are also being met from appropriations of other departments and agencies, examples being teachers' salaries, special language training units, fees paid to commercial language training schools and travel expenses. We have estimated these additional costs in 1971-72 at about $900,000 compared with $400,000 in 1970-71. The salaries of persons taking language training are not included as costs of language training.

The planning, programming, budgeting system in use by the Treasury Board is intended to enable an intensive study to be made of feasible alternative ways of attaining defined objectives with a view to determining the approach most likely to achieve the greatest benefits for a given cost. The objectives describe what part of the total government responsibility a department is given as its particular responsibility and similarly a series of sub-objectives are developed leading to the division of the department's total responsibility into logical separate parts.

If such a system is to operate effectively, accurate all-inclusive costs are essential. In paragraph 162 of our 1971 Report we suggested that consideration should be given to having the language training program provide for the full cost of training including the salaries and expenses of persons taking the training. However, there has been no change in the past practice of leaving certain costs in the various departmental appropriations.

182. *Construction and financing of oil refinery terminal wharf, Come-by-Chance, Nfld.* In our 1967 Report (page 79) and our 1968 Report (page 107) we referred to instances where the Department of Public Works had undertaken the construction of wharves for the exclusive use of private companies which were to repay the cost to the Department over a period of years after which title was to pass to them. In neither case had the text of the vote disclosed these circumstances to Parliament.

In December 1970 the Treasury Board authorized the Department of Public Works to construct an oil refinery terminal wharf at Come-by-Chance, subject to entry into an agreement with three corporations. Two of the corporations are provincial Crown corporations established to develop and operate the wharf; the other, a commercial corporation, is to conduct the management of the wharf. In June 1971 the Governor in Council approved an agreement between the Department and the three corporations for the construction of the wharf which was to be designed, constructed and financed by the Department subject to recovery of the cost with interest from the corporations over a 25-year period. The cost of construction is estimated to be $20 million.

Funds were provided in 1971-72 for the initial stages of construction by Public Works Vote L30, Appropriation Act No. 3, 1971, *1970-71-72, c.46*, which reads:

> Loan in accordance with terms and conditions approved by the Governor in Council for the construction of an oil refinery terminal wharf at Come-by-Chance, Newfoundland, $8,735,000.

During the year contracts involving $9,805,000 were awarded with Treasury Board approval, and progress payments amounted to $2,073,000.

In this case the use of a loan vote in the Estimates does indicate to Parliament that recovery is expected and therefore that the appropriation is not for the normal programs of the Department. However, the Vote was misleading in that it gave the impression that the amount of $8,735,000 was the total cost and did not disclose that the estimated cost of the wharf was $20,000,000.

183. *Delay in depositing cheques.* The Government Contracts Regulations provide for a security deposit received from a tenderer whose tender is accepted to be deposited to the credit of the Receiver General.

In February 1971 the Department of Public Works accepted six tenders for the provision of leased accommodation in Ottawa and the six certified cheques, each for $100,000, held as security deposits, should have been deposited immediately. However, the cheques were held by the Department for four months before they were deposited. The tender documents provided that interest would be paid on the deposits at the prevailing rate under the Government Contracts Regulations. This rate is 2 1/2% because that was the last rate paid on Post Office savings accounts. Interest was subsequently paid from the date of acceptance of the tenders and thus, because of the failure of the Department to deposit the cheques promptly, the Crown did not have the use of the $600,000 during a period of four months in which interest of $5,000 accrued.

184. *Irregular charge to Public Works appropriation.* In November 1970 the Department of Public Works obtained Treasury Board approval for the purchase of a tract of land in Vancouver, B.C., as the site of a proposed federal building. Part of the land was then owned by the City of Vancouver and the City agreed to sell this parcel to the Department. In March 1971 the Treasury Board authorized the Department to make an advance payment to the City, up to a maximum of $881,000, upon receipt of a document satisfactory to the Department of Justice. On March 31, 1971, the Department of Public Works entered into an agreement with the City for the purchase of the land that provided for an advance payment of $750,000 and for determination of the balance of the purchase price by negotiation. However, the required approval of the Governor in Council was not obtained until June 8, 1971. Nevertheless, on April 30, 1971, a cheque for $750,000 was drawn payable to the City and charged against a 1970-71 appropriation of the Department.

Treasury Board regulations stipulate that "no payment may be made in respect of a purchase of land before delivery of a good title satisfactory to, and obtained through, the Deputy Minister of Justice". Accordingly, the cheque was retained by the Department of Public Works until the Department of Justice had obtained a

satisfactory title and it was not until September 29, 1971, some 5 months after it had been drawn, that the cheque was forwarded to the City.

The charging of this amount to a 1970-71 appropriation was irregular.

185. *Eating facilities for Crown employees in public buildings.* In previous Reports (paragraph 163 in 1971) we have referred to the fact that eating facilities for government employees in public buildings are subsidized to a considerable extent because no charge is made by the Department of Public Works for space, fixed kitchen and serving counter equipment, tables, chairs, utility costs, etc. We pointed out that until the Department is in a position to isolate the cost of eating facilities, the extent to which those operations are subsidized cannot be determined and proper management control cannot be established. We understand that the Treasury Board Secretariat is in agreement.

Effective management action is long overdue in dealing with this problem. Ten years ago the Royal Commission on Government Organization drew attention to this situation stating that where an employer provides meals to employees at less than cost, the subsidy involved must be carefully costed for purposes of management control. Three years ago the Treasury Board Secretariat announced plans for a comprehensive review of policies and practices and advised the Department of Public Works that the Bureau of Management Consulting of the Department of Supply and Services had been asked to conduct a review of the situation. A year ago we were told the Bureau had submitted its draft report to the Secretariat.

On inquiring where the situation stood in August 1972, we were informed that the Treasury Board Secretariat had not yet completed its examination of the report. The Secretary of the Treasury Board confirmed this in October 1972 saying that when the Secretariat had done so and submitted its proposals to the Treasury Board, the Ministers would undoubtedly want to consider both the policy question as to the level of charges they consider to be appropriate and the methods of accounting to be employed. He said he could not indicate precisely when the recommendations would be presented but that the Secretariat was working towards an early 1973 deadline.

186. *Increasing accommodation rental costs.* In previous Reports (paragraph 165 in 1971) we have pointed to a continuing escalation in the rental outlay of the Department of Public Works. We expressed the opinion that costs are likely to be higher than necessary as long as the Department must absorb rental costs out of its own appropriations while the ultimate choice of accommodation rests with the client departments.

As the following comparison of rental costs for the past six years indicates, the upward trend continues:

	National capital area	Elsewhere	Total
1966-67	$ 10,301,000	$ 6,847,000	$ 17,148,000
1967-68	14,271,000	12,945,000	27,216,000
1968-69	18,028,000	16,043,000	34,071,000
1969-70	20,824,000	19,019,000	39,843,000
1970-71	22,757,000	21,294,000	44,051,000
1971-72	28,857,000	27,941,000	56,798,000

Space under lease in the national capital area at March 31, 1972, amounted to 8.1 million square feet compared with 6.2 million square feet at March 31, 1971.

In its First Report 1970-71, presented to the House on November 26, 1970, the Public Accounts Committee recommended that accommodation costs be made a charge to each department's appropriation rather than have the Department of Public Works pay a large part of this sum out of its own appropriation (see Appendix 1, item 31). During November 1971 the Department circularized departments and agencies advising that, using the fiscal year 1972-73 as a pilot year for the refining of techniques and subject to the approval of the Treasury Board, it intended to commence charging for accommodation on April 1, 1973. However, when we asked the Treasury Board Secretariat in October 1972 if the required steps were being taken to implement the plan on April 1, 1973, we were informed that the plan had not yet been submitted to the Treasury Board and that no prediction could be made as to what the final decision would be or when it would become effective.

187. *Excessive office accommodation—Canadian Transport Commission.* In 1968 the Department of Public Works entered into a 10-year lease commencing November 1, 1968, to provide accommodation for the Canadian Transport Commission in Ottawa. The space provided comprised 115,700 square feet having an annual rental cost of $4.80 per square foot. Although the Commission had a staff of only 358 on October 31, 1968, the Department's request to the Treasury Board for authority to enter into the lease was based on the Commission's forecast of an establishment of 638 for 1968-69, increasing to 983 by 1973-74. In the submission it was stated that some 25,000 square feet would not be required by the Commission immediately and in the interim it could be used by other Crown agencies.

At March 31, 1972, only 500 employees were on strength and, although the Commission's growth had fallen far short of its forecast, no part of the rented space had been utilized by other Crown agencies. From inception of the lease to March 31, 1972, rental charges amounted to $1,898,000, an indeterminate part of which was for space that was, in our opinion, in excess of requirements.

188. *Cost of unused accommodation, Ottawa.* Two instances were noted where rental was paid for accommodation in Ottawa that was not used:

1. In 1968 the Department of Public Works leased a four-storey building for a period of five years at an annual rental of $157,100, to provide accommodation for the Canada Pension Plan Branch of the Department of National Health and Welfare.

In May 1971 the Branch moved the major part of its operations to other quarters in Ottawa, leaving 33,300 square feet of space unoccupied, and in December it vacated the remaining 7,000 square feet. In April 1972, after the building was renovated by the Department of Public Works at a cost of $72,800, the Medical Services Branch of the Department of National Health and Welfare moved its headquarters into the building. The total non-productive rental cost was $129,300 of which $39,300 was applicable to the period when the building was being renovated.

2. In our 1971 Report (paragraph 69) we drew attention to the move of the Canada Council from the Victoria Building to La Promenade, in the course of which rent totalling $32,300 was paid for unoccupied space between May 1, 1971, and August 31, 1971.

   On September 1, 1971, the Department of Public Works assumed responsibility for the term leases on 24,800 square feet of space in the Victoria Building. On November 1, 1971, it took over the 3,200 square feet rented on a month-to-month basis, immediately converting it to a fixed-term lease expiring March 31, 1978. Subsequently the Department leased an additional 6,700 square feet in the Building. However, it was unable to find tenants for all the space and 9,900 square feet was still vacant at March 31, 1972, including 3,000 square feet which originally had been rented on a month-to-month basis. The cost of unoccupied space from September 1, 1971, to March 31, 1972, amounted to $21,800.

189. *Cost of unused accommodation, Vancouver, B.C.* To accommodate the Department of the Environment, the Department of Public Works leased space in a building in Vancouver for a period of five years commencing November 1, 1971, at an annual rental of $398,000.

However, the Department of the Environment did not occupy the premises until three and one half months after the lease had commenced. We understand that the delay in occupancy was caused by alterations to meet requirements of the Department and a delay in delivery of furniture.

Rent for the period when the premises remained unoccupied amounted to $116,300.

190. *Cost of unused accommodation, Moncton, N.B.* In 1967 the Department of Public Works entered into a ten-year lease terminating December 31, 1977, at a rental of $153,600 per annum, to provide space in Moncton for the Unemployment Insurance Commission, the Department of National Revenue, the Department of the Secretary of State of Canada, and the regional headquarters of the Rural Development Branch of the Department of Forestry and Rural Development which was being moved from Amherst, N.S., to Moncton. (See item 2 of paragraph 229 of this Report.)

In January 1970, the Department of Regional Economic Expansion, which in the interval had been assigned the responsibility for the Rural Development program, notified the Department of Public Works that on March 31, 1970, it was closing out its operations in Moncton. Subsequently, six of its employees were transferred back to Amherst and the remainder to Fredericton, N.B. Its space in Moncton was vacated on April 18, 1970, and remained vacant until June 5, 1971, when it was occupied by the Unemployment Insurance Commission. The cost of the unused accommodation for that period was $55,000.

191. *Further non-productive costs associated with project previously cancelled.* In our 1969 Report (page 107) we summarized the costs of the Northumberland Strait Crossing project which had been cancelled. Subsequent to the termination of the project, the following non-productive expenditures totalling $120,800 were incurred:

1. In July 1968 the consortium of consultants that had been engaged for the project leased accommodation in Montreal, Que., at an annual rental of $56,200. The lease had an expiry date of April 30, 1971, but could be terminated at the end of any month after April 30, 1969, by giving ninety days notice and paying a penalty of $600 per month for the unexpired portion.

   When the consultants vacated the premises in August 1969, the Department of Public Works assumed responsibility for the lease. As the Department's attempts to find other tenants were unsuccessful, the lease was terminated effective August 31, 1970. In addition to the penalty of $4,800 paid for the unexpired portion of the lease, the Department had paid the landlord $56,200 for space that remained vacant for twelve months.

2. A co-ordinator was appointed for a period of six years from August 1967, to supervise and co-ordinate other consultants engaged in the construction and the design of, and the construction contracts relating to, the project. The contract of employment provided that in the event of the project being discontinued alternative duties could be assigned to the co-ordinator but such duties were to be at the level of the co-ordinator's expertise and competence.

   Following cancellation of the project in February 1969, the co-ordinator carried out another assignment which ended in October 1970. Although the Department endeavoured to find employment which would fit the terms of his engagement no further duties were assigned. The co-ordinator submitted his resignation effective September 30, 1971, and accepted a lump-sum payment of $17,000. Payment of this amount on an *ex gratia* basis was approved by the Governor in Council.

   In addition to the *ex gratia* payment of $17,000, costs during the year in which no work was performed included $34,500 for salary and $8,300 for rental of office space occupied by the co-ordinator.

192. *Unused plans for Canadian Embassy in Brazil.* In 1961 the Department of Public Works, on behalf of the Department of External Affairs, engaged a firm of architects to design, prepare working drawings and specifications for, and subsequently supervise the construction of, new embassy facilities at Brasilia, Brazil. Payments totalling $74,500 were made to the architects throughout the period 1961 to 1970. However, construction was postponed as the move of the Brazilian Government from Rio de Janeiro to Brasilia was behind schedule.

Early in 1970 the Brazilian Government informed diplomatic missions in Brazil that they must move their headquarters to Brasilia within two years if they wished to retain the property allocated to them. The Department of External Affairs decided in consultation with the Department of Public Works that the plans that had been prepared would not meet the space and environmental standards of 1970 and that new plans would be required. The original plans were then abandoned.

In November 1971 the Treasury Board authorized the Department of External Affairs to proceed with development of new plans at an estimated cost of $133,500 for the provision of embassy facilities in Brasilia.

193. *Cost of abandoned plans, Ottawa.* In January 1970, the Department of Public Works engaged consultants for the design and preparation of working drawings and specifications for, and subsequent supervision of, renovations to the Connaught Building. The estimated cost of the renovations was $2.7 million.

The initial plans provided for installation of laboratories, for use by the Customs and Excise Division of the Department of National Revenue, estimated to cost $125,000. Upon further review, however, it became apparent that the installation of laboratories in the Connaught Building was more complex than originally envisaged and a revised estimate of costs amounted to $250,000. It was then decided to locate the laboratories in some other building and, in December 1970, the consultants were instructed to eliminate the laboratories from the project. The consultants were paid $9,800 for the drawings and specifications they had prepared for the work which was abandoned.

In March 1971, after consideration of other sites, it was decided to locate the laboratories in the two top floors of the Besserer Street post office, which was then being renovated by the Department of Public Works. The consultants, who had been engaged to provide consulting services for the renovations, were instructed in June 1971 to prepare working drawings and specifications for the installation of the laboratories. However, it was subsequently learned that the Besserer Street post office would probably be required for other purposes by the National Capital Commission within a period of seven years. It was then decided to convert the two floors to office accommodation and the consultants were paid $30,700 for the preparation of plans for the laboratories which were not used.

The payment brought the total cost of abandoned work with respect to the laboratories of the Department of National Revenue to $40,500.

194. *Additional costs due to design changes, Jackson Building, Ottawa.* In our 1971 Report (paragraph 169) we drew attention to non-productive payments, totalling $178,000, that were made in settlement of claims from contractors in connection with renovations to the Jackson Building. The claims were based on increased construction costs due to a delay of five and one-half months. The delay followed the demolition work which revealed that the structural frames of the two parts of the building were dissimilar and that a new design for the exterior walls was required. In addition, non-productive payments of $10,000 were made to the consultants covering abandoned work in connection with electrical downfeed services, partition layouts, a cafeteria addition and a revolving door.

During 1971-72 the consultants were paid $22,000 for other revisions to the initial design, due to changes requested by the Department of Public Works, which brought the non-productive payments to $210,000. A claim for $24,000 for consultants' fees relating to the redesign of the exterior walls remains to be settled.

195. *Weakening of parliamentary control over expenditure through failure to disclose the total cost of a project.* Under a Fund for Rural Economic Development (FRED) agreement with the Province of Quebec for increasing manpower mobility and commercial links under a comprehensive development plan for the Lower St. Lawrence, Gaspé and Magdalen Islands area, Canada has undertaken to contribute $6 million to the Province towards the cost of building a provincial ferry with icebreaking capability. Under the same agreement the Province has turned over to Canada for one dollar the ferry *Manic* (see paragraph 219 of this Report) to be used to establish a ferry service between the Magdalen Islands and Prince Edward Island, and has agreed to assume sole responsibility for the subsidization of certain ferry services within the Province.

During the year, $3 million was paid from Regional Economic Expansion Vote 10 towards the cost of the new provincially-owned ferry. However, this amount is not reported in the Public Accounts as an item but is combined with other contributions for roads, etc., in a total of $9,308,000 for Transportation reported on page 21.9 of Volume II of the Public Accounts in a Statement of Transactions of the Fund for Rural Economic Development. Provision for a further $3 million to be paid to the Province with respect to the ferry is included in 1972-73 Transport Vote 50—Grants and contributions (1972-73 Estimates, page 27—48).

When contributions to a single project such as this are divided between the appropriations of more than one department, the full extent of the related cost to Canada is not adequately disclosed, thereby contributing to the weakening of parliamentary control over expenditure.

196. *Irregular charges to Regional Economic Expansion appropriation.* When the phase-down of the United States naval station at Argentia, Nfld. was announced in February 1970, a task force comprising representatives from federal and provincial departments and other persons was set up to examine the unemployment and economic problems of the Argentia-Placentia area. These problems were already severe due to an earlier phase-down of the naval station and the resettlement of fishermen in the area which lacked adequate facilities for fishing operations.

In July 1970 the Cabinet approved a number of projects involving expenditures in 1970-71 and 1971-72 and requested the Department of Regional Economic Expansion to provide the necessary funds in 1970-71. Subsequently the Treasury Board extended this to include 1971-72. Among the projects for which expenditures were charged to Regional Economic Expansion Vote 10—Grants and contributions, were:

	1970-71	1971-72	Total
Development of Castle Hill National Historic Park	$ 145,000	$ 289,000	$ 434,000
Construction of salt fish/fresh fish community stage at Jerseyside	87,000	134,000	221,000
Payment to Placentia Area Development Association for a temporary boat building and repair facility	10,000	2,000	12,000
Construction of a permanent boat building and repair facility	—	27,000	27,000
	$ 242,000	$ 452,000	$ 694,000

Development of national parks and historic sites is the responsibility of the Department of Indian Affairs and Northern Development through its Conservation Program for which funds were provided in Vote 65 of 1970-71 and 1971-72. The other three projects were within the Fisheries Management and Development Program for which funds were provided in Fisheries and Forestry Vote 5 of 1970-71 and Environment Vote 25 of 1971-72.

The original arrangement for the financing of the projects by the Department of Regional Economic Expansion was based on the reported inability of the other Departments to find the necessary funds within their approved estimates for 1970-71. As this manner of financing was decided in July 1970, provision could have been made for these projects in the 1970-71 Supplementary Estimates and in the 1971-72 Estimates.

In our view, the charges of $694,000 to Regional Economic Expansion Vote 10 with respect to these projects are irregular as they come within the programs of other departments for which specific appropriations had been provided by Parliament.

The Department of the Environment has acknowledged the error with respect to the three fisheries projects and has paid amounts falling due with respect to them in 1972-73.

197. *Irregular payment of a development incentive grant.* Early in 1970, a non-Canadian-owned electronics company, technically bankrupt and facing permanent shut down, applied for a development incentive grant under the Regional Development Incentives Act, *R.S., c. R-3.* The Department of Regional Economic Expansion rejected the application on the grounds that the Regional Development Incentives Act program could not be used to assist in restructuring or transferring ownership of a company. Shortly thereafter two of the directors of the company formed a new company to acquire the business and assets. This acquisition seemed to rely on:

1. a verbal agreement by the Department of Regional Economic Expansion to make a grant of $400,000 to the new company;
2. the agreement of a provincial Crown corporation to make a grant of $331,000 to the new company and to advance an additional $169,000 under certain conditions;
3. the agreement of the provincial government to guarantee a $200,000 bank loan for the new company; and
4. the willingness of the Canadian Commercial Corporation to subcontract to the new company a United States Navy contract.

The new company then applied to the Department for the development incentive grant. This grant, based on approved capital costs and creation of jobs, was authorized and a payment of $378,000 was made during 1970-71.

During the year, when the Department was informed by the company of the need to increase plant production capacity, the agreement was amended to increase the maximum possible grant to $570,000. A further payment of $64,000 was made which brought the aggregate payments to 80% of $553,000, the revised estimated development incentive grant payable. The remaining 20%, estimated at $110,000, is payable in October 1973.

Under sections 4 and 5 of the Act an applicant for a grant who is "proposing to establish a new facility or to expand or modernize an existing facility" may be given a development incentive grant of 25% of approved capital costs plus an amount for each job created. The development incentive grant given to this company was based on 25% of the approved capital costs arising from the cost of buying the building, machinery and equipment, and small tools of the original company, and on the creation of an estimated 395 new jobs.

In actual fact the development incentive grant related to the take-over without interruption of the operation of a completely organized manufacturing firm which was in commercial production and employing some 300 persons.

While job sustaining activities are undoubtedly important, they do not appear to be contemplated by the Act which restricts eligibility for a development incentive grant to the establishment of a new facility to enable the manufacturing of a product not previously manufactured. It is difficult to understand how the acquisition by new owners of a functioning facility can be construed as being the establishment of a new facility.

The original company was indebted to the Department of Industry, Trade and Commerce in the amount of $99,000, which has not been paid (see paragraph 104 of this Report).

198. *Grant made under Department of Regional Economic Expansion Act.* Special assistance in the form of grants in respect of part of the capital cost of establishing, expanding or modernizing commercial undertakings may be provided, under agreements authorized by the Governor in Council pursuant to section 10(1) of the Department of Regional Economic Expansion Act, *R.S., c. R-4,* in special areas designated under section 6 of the Act as requiring special measures to facilitate economic expansion and social adjustment.

During the year a grant of $33,500 from Regional Economic Expansion Vote 10—Grants and contributions, was paid to a company notwithstanding the fact that an investigation showed that company equity was negative and the operation was not viable. The basis for making the grant in these circumstances was that the company employed persons of native ancestry who had the support of a provincial government.

199. *Subsidization of irrigation projects.* In previous Reports (paragraph 174 in 1971) we have noted that expenditure by the Prairie Farm Rehabilitation Adminis-

tration on two irrigation projects in Alberta and six in southwest Saskatchewan greatly exceeded revenue. We also noted that in November 1971 the Administration had informed the Public Accounts Committee that the transfer of the Bow River and the St. Mary irrigation projects to the Province of Alberta was under negotiation.

In 1971-72 there was no change in the rates charged for water and the excess of expenditure over revenue totalled $1,496,000 compared with $1,884,000 in the previous year. Expenditure and revenue for the year ended March 31, 1972, were as follows:

	Bow River irrigation project	St. Mary irrigation project	Irrigation areas in southwest Saskatchewan
Irrigable acres	125,000	304,000	40,000
Expenditure—			
Administration, operation and maintenance	$ 1,059,000	$ 336,000	$ 366,000
Construction	157,000	23,000	72,000
	1,216,000	359,000	438,000
Revenue—			
Water charges	138,000	98,000	57,000
Other	175,000	8,000	41,000
	313,000	106,000	98,000
Excess of expenditure over revenue	$ 903,000	$ 253,000	$ 340,000

Transfer of the Bow River and the St. Mary irrigation projects to the Province of Alberta is still under negotiation. Pending the outcome of negotiations, the Treasury Board has authorized a three-year program of urgently needed rehabilitation work for major structures in the Bow River project. A contract in the amount of $4,172,000 has been authorized for the rehabilitation of the Carseland Dam with expenditure of $895,000 being recorded during the year but not included in the costs reported above.

200. *Inadequate management of motor vehicle operations.* In previous Reports (paragraph 175 in 1971) we drew attention to the under-utilization of some of the vehicles owned by the Prairie Farm Rehabilitation Administration, its costing reports and a study by the Administration of the use of its trucks and special-type vehicles.

During the year government-owned automobiles accounted for 63% of the Administration's total car mileage compared with 54% in 1970-71 and 43% in 1969-70. In the past two years there have been substantial decreases in the number of fleet units showing low-mileage service and in the number of persons paid for

high-mileage use of private cars. This improvement resulted from a policy decision effective July 1, 1970, to reallocate government-owned cars to high-mileage private automobile users.

The Administration's study of the use of its trucks and special-type vehicles, which was initiated in November 1971, was submitted to the Director of the Administration on July 17, 1972. At the end of that month, the Administration's computer-produced vehicle costing report was discontinued and replaced by the Department of Supply and Services Fleet Management Information System which had become fully operational starting January 1, 1972.

In our 1970 Report (page 101) we expressed the belief that there was a demonstrated need for the Treasury Board to initiate studies into all aspects of motor vehicle management, including the use of personal automobiles. The Public Accounts Committee in its Second Report presented to the House on June 8, 1972, expressed interest in this subject and stated that it awaited with great interest the result of a study that it had been informed was underway. In January 1973 the Treasury Board issued a revised "Policy and Guidelines for the Acquisition and Use of Motor Vehicles in the Government of Canada" delegating more authority to departments and agencies regarding the purchase and management of motor vehicles. In order to have the reliable information necessary for the exercise of efficient fleet management under the new guidelines, the Fleet Management Information System for Motor Vehicles, now used by several departments on a voluntary basis, is to be extended to all departments by July 1, 1973.

201. *Subsidization of community pastures.* Paragraph 176 of our 1971 Report on the community pastures program under the Prairie Farm Rehabilitation Act, *R.S., c. P-17*, noted that pasture operating costs did not include provision for depreciation or cost of capital employed, that pasture revenue had not been sufficient to satisfy the Prairie Farm Rehabilitation Administration's policy of recovering direct operating costs and that a study of the role of the community pasture program was in progress. In 1971-72 the general situation remained unchanged.

Since 1938, 2.4 million acres have been developed as community pastures. During the year three new pastures were brought into operation and one was still under development. There are now 93 pastures in operation, including 10 on Indian reserves, of which 70 are located in Saskatchewan, 20 in Manitoba, and 3 in Alberta. They served 5,755 patrons in the 1971 grazing season.

Capital construction costs have amounted to $14,227,000 since inception in 1938 including expenditure during the year of $758,000.

Pasture operating costs in 1971-72, after deducting $247,000 for the increase in the value of the bull inventory, were $2,570,000 of which $2,002,000 is regarded as direct operating costs. Revenues amounted to $1,955,000 consisting chiefly of grazing fees, $1,214,000, and breeding fees, $417,000, with the balance coming mainly from the sale of bulls, and from surface leases and house rentals. The resulting deficit,

without making any provision for depreciation or the cost of capital employed, was $615,000. There was no change in grazing fees during the year.

The study by the Administration of the present and future role of the community pasture program was submitted to the Deputy Minister in September 1972.

202. *Liquidation of provincial corporations financed with federal funds.* Reference has been made in previous Reports (paragraph 177 in 1971) to the appointment of the Auditor General of Canada as joint auditor with various public accounting firms of provincial corporations formed to facilitate and promote research into the utilization and development of manpower resources. Costs of these corporations, which are incorporated under provincial legislation, are borne by Canada.

During the year two of these corporations, Prince Edward Island NewStart Inc., and Manitoba NewStart Inc., which had a planned life of about four years, ceased to operate and are in the hands of liquidators appointed by the Corporations' directors. The remaining corporations are expected to cease operations in 1972-73.

Payments that have been made by Canada to the Corporations in liquidation at March 31, 1972, prior to cessation of operations, together with the amount of these funds used to purchase capital assets, are as follows:

	Date ceased operations	1971-72	Cumulative to March 31, 1972	Amounts expended on capital assets
Prince Edward Island NewStart Inc.	August 31, 1971	$ 146,000	$ 2,941,000	$ 477,000
Manitoba NewStart Inc.	December 29, 1971	325,000	1,575,000	126,000
		$ 471,000	$ 4,516,000	$ 603,000

In addition to the payments made directly to the Corporations, payments of $82,000 have been made during the year to the liquidators to meet the expenses of winding up these Corporations.

The following summary shows payments made in respect of operations of the Corporations by the Department of Regional Economic Expansion during the year and the cumulative payments to March 31, 1972, together with the amount of these funds used to purchase capital assets:

	Incorporated	1971-72	Cumulative to March 31, 1972	Amounts expended on capital assets
Nova Scotia NewStart Inc.	June 29, 1967	$ 502,000	$ 3,676,000	$ 249,000
Saskatchewan NewStart Inc.........	August 10, 1967	952,000	3,903,000	322,000
Alberta NewStart Inc...............	August 11, 1967	657,000	6,381,000	1,714,000
Prince Edward Island NewStart Inc.	August 23, 1967	146,000	2,941,000	477,000
New Brunswick NewStart Inc.	May 28, 1969	770,000	1,793,000	69,000
Manitoba NewStart Inc.............	July 10, 1969	325,000	1,575,000	126,000
		$ 3,352,000	$ 20,269,000	$ 2,957,000

The accounts and financial statements of all of the Corporations for their fiscal years ended on December 31, 1971, or March 31, 1972, or for the period to date of liquidation, were examined and reported upon by the joint auditors. In the periods reported upon, these Corporations received grants from Canada totalling $3,941,000 and had other income of $212,000, mainly from sales of training courses, reports and publications produced by the Corporations. In the same periods the Corporations spent $4,672,000 for operating costs (including $3,018,000 for personnel costs) and $79,000 mainly for buildings, office furniture and equipment, and training equipment.

Disposal of capital assets held by the Corporations has usually been made through Crown Assets Disposal Corporation while on occasion some of the assets have been transferred to a province for a nominal amount or disposed of through direct sales by a corporation itself. Assets associated with a particular program are usually the ones transferred to the province or provincial body on the condition that the program is continued by that provincial body.

On a number of occasions, certain of the Corporations have entered into commitments for periods longer than the expected life of the Corporation. Upon liquidation, substantial termination payments may be required in order to terminate the commitments. In the case of Manitoba NewStart Inc., which went into liquidation, earlier than expected, on December 29, 1971, $75,000 has been paid for the termination of various leases and rental agreements and these payments must be considered non-productive.

203. *Opportunities for Youth Program.* Expenditure under this Program amounted to $24.7 million which was provided by Secretary of State Vote 41a, Appropriation Act No. 4, 1971, *1970-71-72, c.58.* The Program, carried out by the Department of the Secretary of State, consisted of 2,316 individual projects throughout Canada. The Audit Services Bureau of the Department of Supply and Services examined and reported to the Department of the Secretary of State on 402 of the projects while the Office of the Auditor General reviewed 164 projects including 27 covered by the Bureau. Thus there has been an audit of approximately 24% of the projects representing about 41% of the total expenditure.

The guidelines for the Program included the following:

—the maximum length of a project should be three months with all projects completed by September 30, 1971;

—salaries for a three-month period should not be more than $1,000 for post-secondary students and $800 for secondary school students;

—salaries paid to students should not be less than 80% of the cost of the project;

—there would be no allowance for travel costs unless approved as an essential part of the project;

—there would be no payment for capital costs of any kind; and

—no payment would be made for expenses outside the approved budget.

Our review of 164 projects disclosed the following:

(a) In 29 projects where expenses other than salaries exceeded the amount agreed to, a reallocation of funds between salaries and other expenses was approved by departmental officers only on a verbal basis.

(b) Contrary to the stated policy of attempting to employ as many students as possible by suggesting an upper limit on salaries, in 33 projects the salaries paid, although in accordance with the project agreement, exceeded the guidelines. In 10 of these projects certain individuals were paid $1,200 or more, and in one project, individuals were paid more than $1,500. Two individuals received salary payments from four projects. Three projects employed persons holding full-time positions elsewhere.

(c) In 23 projects Canada's contribution exceeded by $10,765 the total expenditure shown by the financial statements of the projects. Refunds totalling $5,586 were requested in only three instances but these amounts had not been refunded by November 1972. Departmental officers stated that conversations with administrators of the other projects disclosed that legitimate expenses had been overlooked or certain liabilities had been excluded when the financial statements were prepared.

(d) There was no fixed mileage allowance stipulated for transportation expenses. The participants in some projects were given lump-sum allowances and others received mileage rates varying from 5 cents per mile to the most commonly-used rate of 15 cents per mile. One person in the latter category was also reimbursed for his gasoline purchases. One project administrator rented the family car from his father, paying a rental of $1,200 for a two-month period. Another project absorbed the cost of tires, battery, insurance and maintenance and repairs of a car owned by a participant. Two persons on another project shared $600 to help defray expenses for a research trip to Sweden.

(e) Despite the stipulation that capital costs would not be allowed, numerous projects expended funds on such items as buses, trucks, boats, tape recorders, audio-visual equipment, typewriters, musical instruments, etc. Some assets were sold at the end of the project for little less than the purchase price, and some items were donated to different institutions, but there was no accounting for most of the capital assets purchased for use on the projects.

The following observations relate specifically to 12 of the 539 projects audited:

1. PROJECTS CANCELLED. The Program established a formula for the payment of contributions whereby a maximum of 50% could be paid when the project was ready to start, another 45% after inspection by a departmental officer or after an audit had been made, and the final 5% when the financial statement and evaluation report were submitted by the project administrator. As the following cases illustrate, the cancellation of a project prior to completion raises the

question of the extent to which the related expenditure may be considered non-productive as the ultimate objective of the project enunciated in the agreement was not attained:

(a) *Toronto, Ont.* A group which intended to produce eight issues of a "free paper" to serve as a communications medium for youth, requested a contribution of $6,600. One issue of the paper, dated July 29, 1971, carried an article describing and advocating methods of obtaining goods and services fraudulently. Advice on methods of obtaining goods and services by unlawful means is an offence under the Criminal Code in that it counsels the commission of an offence. The project was immediately cancelled. The project received $3,300 on June 12 and $2,970 on July 29, but we have been unable to determine how many issues were produced. The final $330 was not paid.

(b) *Regina, Sask.* A group requested $6,925 to publish 12 issues of a community newspaper which would allow minority groups to express their opinions and disclose their problems. The project was cancelled on June 28 as a result of the paper, in its third issue, contravening policies of the Department concerning newspapers funded by it. The project received $5,159, of which $1,697 was received over a month after cancellation to pay expenses incurred up to the date of cancellation.

(c) *Iles-de-la-Madeleine, Que.* A group whose project had the objectives of carrying out "social research" and encouraging "socio-cultural expression" among the population submitted a request for $10,000. An initial payment of $5,000 was made but the project was later cancelled on the recommendation of a departmental officer because of a lack of motivation among participants and an inability to meet project objectives.

(d) *Nanaimo, B.C.* A group requested a contribution of $6,900 to finance a portable exhibit that would demonstrate to people in isolated communities the purpose and value of community college education. A contribution of $3,450 was made but further financial assistance was withheld when a departmental officer learned that the exhibit was essentially a public relations effort by a particular educational institution to encourage enrolment at that institution. An unspent balance of $1,858 was refunded by the project.

(e) *Prince George, B.C.* A group whose project was designed to provide meaningful activities in the wilderness for urban high school students requested a contribution of $9,637. An amount of $1,785 was paid, but the project was cancelled after two participants were arrested and convicted of charges related to the possession of marijuana.

(f) *Madeira Park, B.C.* Two members of a communal project to develop rural living skills and to enable members of the commune to be self-sufficient requested a contribution of $1,000. After the initial payment of $500 had been made, a departmental officer attempted to visit the commune. However, neither the project site nor the project administrator could be traced. Further attempts to make contact were fruitless.

2. WEAKNESS IN FINANCIAL CONTROLS, SHERBROOKE, QUE. The representatives of an association of students requested a contribution of $62,000 for a project near Sherbrooke to provide 57 full-time and 46 part-time jobs. The objective of the project was to convert an abandoned farm into a campground and refuge for young travellers.

The project evolved into a commercial enterprise featuring a general store, a cafeteria and entertainment. Campers were charged at a rate of $2 or $3 per week, the latter amount including free admission to the weekly "pop" music festivals. Only one bank account was used for the funds of three entities; the project, the student association itself, and a second project also sponsored under the Program. Revenue resulting from the operation of the campsite,

estimated at $5,000 on one particular weekend, was not deposited intact as some expenses were paid directly out of revenue.

No accounting records were maintained with the exception of a salary register which was inadequate and incomplete. Rather than the originally forecast 103 students employed on the project, a total of 251 individuals purportedly received salaries of varying amounts. At least seven persons who worked on this project on weekends were also employed on the second project.

The Audit Services Bureau, using available invoices and information supplied to it, prepared a schedule of receipts, disbursements and accounts payable for the project. The schedule showed disbursements of $93,846, revenue of $35,066, and outstanding liabilities of $29,944, resulting in net project expenditure of $88,724 compared with a budget of $62,000. The project had $20 on hand. The Department's legal adviser is of the opinion that, unless it can be shown that authorized representatives of the Government acting within the scope of their employment caused the suppliers in question to believe that the Government was guaranteeing the project, the Crown has no legal liability for these debts.

As the final 5% of the approved amount of $62,000 was not released, the project received only $58,900. Because of a number of questionable payments, inadequate records and the large deficit incurred by the project, the Royal Canadian Mounted Police were asked to carry out an investigation to determine whether there had been any breach of the Criminal Code. Among the questionable payments are: cheques amounting to over $3,000 which were endorsed by two or more persons including the program administrator; mileage allowances totalling $675 paid to the administrator in a five-week period for use of a personal car; and $15 per day, for a total of $1,005, covering rental of a truck owned by the administrator, with a portion of the purchase price of the truck apparently charged to project funds. The police investigation is continuing.

3. WEAKNESS IN FINANCIAL CONTROLS, TORONTO, ONT. Representatives of a Toronto research foundation for improving man's relationship to his environment, requested a contribution of $22,000. The funds were to be used to develop an experimental farm in northwestern Ontario to provide a life support system, research facilities and a library for the publisher of the almanac of the foundation. The projected establishment was to include geodesic domes, solar heating devices and an anaerobic composting plant. The project received $18,700 of the $22,000 requested.

Funds for the project were deposited in a Toronto bank by the foundation and released to the administrator at the project site as required. A total of $9,950 was transferred to the site. When the project was terminated in September 1971 two unfinished and uninhabitable domes and a cabin had been constructed.

Certain payments made at the site are questionable. Participants received $1,000 each and a portion of this was returned to the project administrator to defray other expenses. Two individuals who arrived at the site in mid-August each received $1,000 on August 26. There were no time or attendance records maintained for the project, with participants apparently on the honour system.

Officials of the foundation are unable to provide details of how the balance of $8,750, which was retained in Toronto, was spent. The funds may have been used to pay salaries of members of the foundation working in Toronto or costs associated with the publication of its almanac. However, because of poor financial records and the lack of supporting documentation, the actual use made of these funds is uncertain.

4. IMPROPER ADMINISTRATION, FREDERICTON, N.B. The purpose of a research project in forest ecological conservation at Fredericton was:

> to formulate practical methods of preserving the environmental quality of Canada's largest natural resource. Federal government departments and academic researchers have devised numerous such methods which are theoretically feasible, and it will be the objective of this project to implement some of these to test their practicability and practicality.

The contribution request of $36,300 was based on the expectation that 33 students would be employed at a cost of $33,000 and that other expenses would amount to $3,300. The project was to be in operation from May 3 to July 23, 1971.

A review of the project files disclosed that rather than carrying out research the project was primarily a harvesting or logging operation. The project administrator, a law student, apparently arranged to clear trees from certain properties and sell the logs to commercial enterprises. He was dismissed from his position on June 23, at which date the project had received $18,150. An audit carried out by the Audit Services Bureau disclosed the following irregularities:

—Of a total recorded expenditure of $17,873, $10,266 could not be vouched due to lack of cancelled cheques, invoices, receipts or other documentation. This included salaries to 20 employees, who purportedly received $5,153 but whose existence could not be substantiated.

—At least one individual was being paid twice.

—Personal expenses such as rental of a television set and purchase of a record album were charged to the project.

—Four power chain saws purchased at a cost of $731 and charged to the project were removed by the administrator as his personal property.

—Revenue received from logging operations was not recorded or credited to the project.

The Royal Canadian Mounted Police are investigating various aspects of this project.

5. FAILURE TO COMPLY WITH PROJECT TERMS, WINLAW, B.C. A project in British Columbia received a contribution of $27,000 to build a community centre. The construction was to provide training for young people in the basic skills required for survival in a rural environment. However, in order to retain a competent mechanic in the community, the project participants, who were members of a society seeking to retreat from a modern urban environment and to establish a self-sufficient community, decided to build a garage, which was more crucial to their survival than the centre. The garage was completed with the funds provided under the project but construction work on the community centre was limited to a concrete foundation and some peeled logs. Assistance under a winter works program was to be sought to complete the centre.

6. QUESTIONABLE MANAGEMENT OF FUNDS, TORONTO, ONT. Members of a coalition of youth organizations in Toronto received a contribution of $25,800 to build a youth community in the City, to provide a meeting ground for local youth groups and transients, and to supply temporary accommodation and free food to transient youth. Additional activities included an information and education program, a free store, and an arts and crafts program.

As a condition of employment on the project, participants agreed among themselves to remit part of their remuneration to the coalition which was then able to use the money realized for project-related purposes which would not have been permissible under the original budget of the project.

There was no distinction made between student and non-student participants in the project and workers were paid at rates varying with the number of weeks employed. Neither time sheets nor signed attendance records were maintained so it was not possible to determine whether the salaries paid were actually earned by participants in the project.

7. INADEQUATE RECORDS AND DOCUMENTATION, GUELPH, ONT. The members of a commune in Guelph received a contribution of $4,250. The funds were to be used mainly for salaries of staff employed in a general store catering to the needs of the low-income citizens of the area. When an audit of the project by the Audit Services Bureau was attempted, the records were found to be incomplete, inadequate for audit purposes and completely lacking in supporting documentation of any kind. Consequently it was not possible to state that expenditure was in accordance with the budget and made for the purposes outlined in the original project application.

204. *Irregular charge to Secretary of State appropriation and establishment of special account without authority of Parliament.* As the operations of a special account mitigate the influence of legislative financial controls, it has long been accepted that clear legislative authority is required for the establishment of such a special account. It has also long been accepted that a liability to pay interest exists only when established by statute or contract, and that there is no automatic entitlement to interest when a statute creates a special account. Such authority was not obtained for the establishment of "The National Second Century Fund of British Columbia".

Secretary of State Vote 22a, Appropriation Act No. 4, 1970, *1970-71-72, c.4,* provides:

> Centenary of the Confederation of British Columbia with Canada—Payments in 1970-71 and 1971-72 fiscal years in respect of program expenditures, grants and contributions, $10,000,000.

Because of the wording of this Vote, the unspent balance of $9,845,000 at March 31, 1971, remained available for spending in 1971-72.

During the year an amount of $4,500,000 was transferred from the appropriation to a special account entitled "The National Second Century Fund of British Columbia". With the approval of the Governor in Council, the account was also credited with interest amounting to $165,000.

The Executive decision establishing the Fund provides that moneys derived from interest may be paid to responsible bodies in British Columbia for the perpetuation and preservation of buildings, parks and ecological areas. The trustees who administer the Fund are also empowered to spend the capital of the Fund, provided measures are taken to maintain the Fund over time.

It will be noted that the appropriation made no reference to the establishment of this special Fund, nor to a specific grant of $4,500,000.

In our opinion, the charge of $4,500,000 to expenditure of the year was irregular because this amount was not spent, but was transferred to a special account in the Consolidated Revenue Fund without Parliament having given its sanction to the establishment of this special account, and the charge to expenditure of $165,000 for

interest is similarly irregular as Parliament had not approved the payment of interest.

In a somewhat similar situation, when The Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children was established in 1959, it was the subject of an Act of Parliament, the Queen Elizabeth II Canadian Research Fund Act, *R.S., c. Q-1*, which also appropriated the sum of $1 million for the Fund.

205. *Subsidized rental accommodation, Drumheller, Alta.* For the past three years (paragraph 180 in 1971) we have commented on a leasing arrangement entered into by the Canadian Penitentiary Service to provide subsidized rental accommodation for staff of the penitentiary at Drumheller. During these three years the subsidy totalled $141,000 including $42,000 for vacant apartments. In last year's Report we stated that steps had been taken by the Penitentiary Service to rent to outsiders at cost any apartments not required for penitentiary employees.

During the year rentals paid for the accommodation totalled $92,000, while recoveries from employees and others totalled $57,000. The subsidization of $35,000 included $16,000 for apartments which remained vacant for part of the year. The subsidization would have been approximately $9,000 more had not some of the vacant accommodation been rented to outsiders.

206. *Overtime of penitentiary staff.* Under the provisions of collective agreements covering penitentiary employees, overtime hours are compensated at either time and one-half or double time. Although such overtime hours are costly, conditions associated with the operation of penitentiaries, such as emergencies arising from prison disturbances, the need for a minimum staff at all times and the isolated location of many institutions, make a certain amount of overtime hours unavoidable.

In 1971-72 the incidence of overtime, particularly for custodial staff, rose sharply. The cost of overtime in the year was $3.7 million, compared with $2.2 million in 1970-71. Of this, $2.9 million (78%) related to custodial staff, compared with $1.5 million (68%) in the previous year.

An analysis by departmental staff of the 603,000 overtime hours worked by custodial staff disclosed the following reasons for overtime: work on statutory holidays, 208,000 hours; replacement of other officers during absences, including 142,000 hours for sick leave replacement, 172,000 hours; special or urgent duty, including 10,000 hours during a prison riot at Kingston Penitentiary, 54,000 hours; and other reasons, 169,000 hours. The 603,000 overtime hours represent 300 hours (14% of the normal work-year) for each member of the custodial staff.

The Department has been studying the causes of overtime and the corrective measures that might be taken. The study is not yet complete.

207. *Sale of Polymer Corporation Limited to Canada Development Corporation.* The financial statements of Polymer Corporation Limited and the 1972 Public Accounts (Volume I, page 11.25) show shareholders' (Canada's) equity in Polymer at December 31, 1971, as $118 million, comprising capital stock of $30 million and retained earnings of $88 million.

Order in Council P.C. 1972-1715 of July 27, 1972, authorized the sale of Polymer to Canada Development Corporation effective July 31, 1972, for an immediate base payment of $62 million plus an additional payment not exceeding $10 million, calculated by multiplying by four the amount by which the average of the 1973 and 1974 net annual income of Polymer on rubber, latex, and plastics products exceeds $7.5 million.

The $62 million payment was in the form of Canada Development Corporation common shares and any additional amount is to be in the form of cash or common shares at the option of the Minister of Finance. The transaction was recorded in the accounts of Canada in September 1972, the excess of the base sale price over the investment of $30 million in the shares of Polymer, $32 million, being credited to Revenue—Return on investments.

Legislative action is to be recommended to delete Polymer from Schedule D of the Financial Administration Act, thus terminating its status as a Crown corporation.

One of the conditions of the sale is that Canada Development Corporation will not sell any shares of Polymer if such sale would result in the control of Polymer passing to any person or group of persons who are not Canadian citizens ordinarily resident in Canada.

The sale price was established following valuations carried out independently by both an investment dealer and the Government with a view to determining a "fair market value". The valuations were based on both economic and financial factors using forecasts and information provided by Polymer and others. We understand that the timing of the sale, the uncertain future of the rubber operations, and the risks associated with a major diversification program undertaken by Polymer in recent years were significant factors in arriving at a selling price at least $46 million less than the book value as recorded on page 11.25 of Volume I and page 103 of Volume III of the 1971-72 Public Accounts.

208. *Investment losses incurred by Polymer Corporation Limited.* In 1970 the Corporation as part of its diversification program acquired for $2,970,000 a minority interest in a company located in the United States and exclusive rights to manufacture and sell the concrete products of this company in Canada under a licensing agreement. The Corporation also obtained an option to acquire exclusive and non-exclusive rights in several other countries.

In 1971 the Corporation wrote down the value of its investment by $1,000,000 to reflect losses sustained by the company. (See paragraph 352 of this Report.)

In April 1972 the Corporation acquired marketing rights in certain other countries for $500,000. Subsequently, the company ceased to operate in the United States because of continuing losses and the Corporation decided that the balance of its investment, $1,970,000, should be written off.

The extent to which the loss of $2,970,000 may be recouped will depend on the ultimate value of the rights acquired, which in turn depends on the profitability of the plant the Corporation has constructed in Ontario at a cost of $4,296,000 to manufacture and sell the products. The plant experienced start-up problems late in 1972 and the success of the venture and recovery of the investment remain uncertain.

209. *Limited competition for government business.* For the past five years (paragraph 185 in 1971) we have referred to the engraving and printing of postage stamps, other revenue stamps and labels, bonds, paper currency, passports and other documents and forms for the Government and the Bank of Canada. This work has been carried out almost exclusively by two Ottawa firms for many years and we have pointed out that limited competition for government contracts creates a risk of excessive profits at the expense of the Crown.

A study team of representatives of interested departments and agencies was established in 1968 "to develop a procedure that will provide the most economical procurement of security printing consistent with the standards of security and quality required and the viability of the two existing commercial sources". The study team found that the contracts generally extended over many years and were allocated to one or the other of the two firms rather than awarded on the basis of tenders. However, the conclusions of the study team as to the most satisfactory procurement methods and procedures were not unanimous and no decision as to future policy was made.

On April 29, 1971, the Public Accounts Committee considered this question and in its Sixth Report 1970-71 presented to the House on June 30, 1971, stated (see Appendix 1, item 37):

> Your Committee is of the opinion that security printing, such as postage stamps, revenue stamps, labels and passports, should be procured through the Department of Supply and Services, as for other goods as envisaged by the Government Organization Act, 1969, *1968-69, c.28.* Also, as existing procurement contracts expire, competition should be broadened to include, in competitive tendering, qualified Canadian firms.

Procurement of security printing is now centralized in the Department of Supply and Services. However, during the year tenders remained limited to the same two Ottawa firms.

In informing us of the centralization of procurement the Deputy Minister pointed out that this did not include the printing of postage stamps which was being done under contracts expiring in the years 1972 to 1974 and of paper currency for which the Bank of Canada wishes to retain responsibility. The Department also stated that the major obstacle to achieving greater competition was the insistence of

user departments on steel engraving for which no one in Canada, other than the two Ottawa firms, is equipped. Its inquiries into practices in other countries had indicated that alternative methods of security printing in Canada should be investigated.

Representatives from the Department of National Revenue, the Department of Supply and Services, and the Royal Canadian Mounted Police are currently investigating the possibility of reducing the amount of steel engraving for revenue stamps and labels in favour of offset printing. The target date for the completion of the study is early 1973.

Some postage stamps are now produced by offset with the balance by the steel plate process or a combination of steel plate and offset printing. However, the steel engraving process continues to be used for bonds and passports.

The opinion of the Department of Supply and Services is that the present market for steel engraving could not sustain three competitors in Canada particularly in view of the fact that the volume of Government business requiring steel engraving is likely to decrease if customer departments agree to use offset printing.

210. *Irregular tendering for ship construction and repair contracts.* In our review of the procedures followed by the Department of Supply and Services in tendering for the construction, conversion, refit and repair of vessels, we have noted that tenders are not invited by public advertisement as required by the Government Contracts Regulations but rather are invited from a representative list of suppliers. In response to our inquiry as to the authority exempting the Department from this requirement, it advised that

> Ships are defence supplies as defined in Section 2 of the Defence Production Act, and as such, they are purchased under the Act as a procurement which is a "Purchase Contract" within the meaning of Part 2 of the Government Contracts Regulations.
>
> This Department and the Treasury Board Secretariat are aware of the fact that some inconsistency exists between the Defence Production Act and Government Contracts Regulations and corrective action will be taken in due course.

However, the Regulations distinguish clearly between the purchase of supplies in general and the construction or repair of a vessel. They state "for greater certainty" that a contract for the construction or repair of a vessel is a construction contract, and that tenders for construction contracts shall be invited by public advertisement.

Since March 7, 1968, when the Department became subject to the provisions of the Regulations, contracts in excess of $200 million for the construction, conversion, refit and repair of vessels have been awarded under procedures which do not comply with the Regulations.

211. *Misleading vote text.* Supply and Services Vote 20b of Appropriation Act No. 1, 1972, *1972, c-1,* provided, by transfer from another vote, $208,021 for Canadian Commercial Corporation—Program expenditures. The purpose of this supplementary appropriation was to restore the Corporation's reserve for contingencies to its

original balance of $225,000, but this was not indicated in the Vote text, and therefore Members of Parliament would be unaware that a reserve was being replenished.

This reserve was originally established to cover possible losses on contracts with foreign governments at a time when most major services were provided to the Corporation without charge by the Department of Defence Production. However, since 1967-68 the costs of the Corporation have been provided for almost exclusively by means of an annual parliamentary appropriation and any losses can be provided for in this way if and when they occur. As is pointed out in paragraph 52 of this Report, parliamentary control is weakened when funds are credited to special accounts to be available for spending in future years. In our opinion, the reserve should be discontinued and the balance paid over to the Receiver General.

212. *Additional costs due to acquisition of printing equipment under lease-purchase agreements.* In paragraph 186 of our 1971 Report we referred to the practice of the Canadian Government Printing Bureau of acquiring equipment under lease-purchase agreements and subsequently purchasing the equipment. In such cases the purchase cost together with the rental paid substantially exceeded the original sale price of the equipment. The practice appears to have developed because budget provisions for capital expenditure have been insufficient.

In 1971-72 the Printing Bureau purchased 66 pieces of equipment which had been formerly rented for periods varying from 11 to 32 months. The rental rebates obtained under the agreements varied from 50% to 90% of the rentals paid. The purchase cost plus rentals paid amounted to $618,000 which was $92,000 more than the original price of the equipment.

At March 31, 1972, the Bureau had $322,000 worth of equipment for which a monthly rental of $12,000 was being paid. Total rental paid to that date was $154,000 of which $82,000 applied to equipment installed prior to April 1, 1971.

213. *Errors in Public Service Superannuation Account pension and contribution calculations.* In our Reports for a number of years (paragraph 188 in 1971) we have pointed out that our annual test audit of the superannuation accounts continued to disclose a high incidence of error in pension and contribution calculations. The Public Accounts Committee has recorded concern that the matter was taking so long to be corrected and requested the Auditor General to continue to keep the Committee fully informed. (See Appendix 1, item 4.)

Our 1971-72 audit tests disclosed a considerably higher incidence of error than in the previous year. The major reason for this appears to be that during 1971-72 supervisory and other key personnel were reassigned to the development of an automated superannuation system and were also heavily involved in training plans preparing for the introduction of a computerized annuitants system in 1972-73. As a result the quality of output of the large clerical staff deteriorated. Errors noted were

failure to include retroactive revisions in the contributors' six-year average salary and misinterpretation of relevant statutory authorities and regulations.

214. *Duplicate payment of disability pension under Public Service Superannuation Act and Canada Pension Plan.* The Public Service Superannuation Act, *R.S., c. P-36*, and the Canada Pension Plan, *R.S., c. C-5*, are integrated pension plans and any annuity payable under the Public Service Superannuation Act must be reduced by an amount determined by a formula set out in the Act whenever the recipient becomes qualified for a pension under the Canada Pension Plan.

The Canada Pension Plan provides for a retirement pension at age 65 and for a disability pension prior to that age under certain circumstances.

When an annuitant under the Public Service Superannuation Act reaches age 65, his annuity is automatically reduced because of his entitlement to a retirement pension under the Canada Pension Plan. However, in the case of an annuitant below the age of 65, the Superannuation Division of the Department of Supply and Services does not always have knowledge of any disability pension granted under the Canada Pension Plan and therefore is not able to effect the necessary reduction in the annuity. Furthermore, section 107 of the Canada Pension Plan provides that information with respect to any individual contributor or beneficiary is privileged and may only be communicated to those requiring it in the course of administration of the Canada Pension Plan. Provision is made for such information to be released to any person at the request of the contributor or beneficiary. However, the Canada Pension Plan Regulations are so restrictive as to make impractical the use of this provision by the Superannuation Division and no consideration appears to have been given to their modification.

Therefore, in its administration of the Public Service Superannuation Act, the Superannuation Division follows a practice of notifying each person who is in receipt of an annuity before age 65 of his responsibility to report any disability pension being received by him under the Canada Pension Plan.

It would appear that this simple notification of the annuitant's responsibility to report has not had the desired effect. In a review of payments to 1,185 annuitants below the age of 65, it was found that 610 were also receiving disability pensions under the Canada Pension Plan, of whom only 219 had had their annuities reduced accordingly. Thus, overpayments to 391 annuitants, which we estimate as amounting to over $100,000 to date, are continuing.

Annuitants under the Canadian Forces Superannuation Act, *R.S., c. C-9*, and the Royal Canadian Mounted Police Superannuation Act, *R.S., c. R-11*, who are below the age of 65, may also be in receipt of annuities in excess of what they are entitled to.

It would seem essential that the Canada Pension Plan be amended to permit disclosure to the Superannuation Division of disability pensions being paid under the Canada Pension Plan. Alternatively, the Canada Pension Plan Regulations

might be modified and the annuitants under the three Superannuation Acts then required to request the Minister of National Health and Welfare to release to the Superannuation Division particulars of disability payments under the Canada Pension Plan.

215. *Termination of payment of pension allowances when a child reaches maturity or when a widow remarries.* As explained in last year's Report (paragraph 189) the Public Service Superannuation Act, *R.S., c. P-36,* provides that the widow of an annuitant, or of a contributor entitled to an annuity at the time of his death, shall be paid an annual allowance until the end of the month in which her death occurs. The Act directs, however, that should a widow remarry her allowance shall be suspended.

The Act, for many years, also provided an annual allowance for each child of the contributor who is less than eighteen years of age. An amendment (*1968-69, c.29*), effective April 1, 1969, continued this provision and extended entitlement to each child who, being eighteen or more years of age but less than twenty-five years of age, is unmarried and in full-time attendance at a school or university substantially without interruption subsequent to his eighteenth birthday or the contributor's death, whichever occurs later.

Departmental policy since 1924 had been to suspend widows' allowances on the day of remarriage and to terminate children's allowances on the eighteenth birthday. Administrative problems relating to varying terminal dates for the academic year made it difficult to determine the exact date for termination of a student's allowance at the end of his final year. On the recommendation of the Director of the Pensions and Insurance Division of the Treasury Board Secretariat, the Superannuation Division, since April 1, 1969, has been paying students' allowances for the whole month in which entitlement is ended by one of the events named in the Act. On August 1, 1969, the Division, in order to be consistent, began to pay children's allowances to the end of the month in which the eighteenth birthday occurs and, where a widow remarries, to defer suspension of her allowance until the end of the month in which the marriage occurs.

This administrative practice has also been applied with respect to dependants' allowances payable under the Canadian Forces Superannuation Act, *R.S., c. C-9,* and the Royal Canadian Mounted Police Superannuation Act, *R.S., c. R-11.*

We reiterate that this practice contravenes the applicable provisions of the three Superannuation Acts and, if it is to be continued, amendments to each of the Acts are required.

216. *Inadequate billing, collection and follow-up of accounts receivable.* At March 31, 1972, the accounts receivable of the Department of Transport totalled $5,525,000 of which $3,323,000 related to the Canadian Air Transportation Administration

including $1,904,000 (57%) which had been outstanding for more than 30 days and was therefore past due.

In our 1971 Report (paragraph 191) we drew attention to the inadequacies in the administration of the accounts receivable of the Canadian Air Transportation Administration with particular reference to international traffic accounts for radiotelegrams and radiotelephone calls. These accounts amounted to $378,000 at March 31, 1972. Inquiries in September 1972 revealed that current billings for international traffic charges were five months in arrears as compared with the 16-month delay reported last year. However, no aged listings of accounts receivable are prepared, no routine follow-up action with respect to overdue accounts was taken during the year, and no control account is maintained to which billings and collections may be reconciled. The Department attributes these deficiencies to the fact that it converted from a manual to a computerized operation, and expects to have them corrected and the backlog of work cleared up by the end of 1972-73.

217. *Loss of wharfage revenue.* In our 1971 Report (paragraph 192) we referred to the failure of the Department of Transport to collect side wharfage charges prescribed under the Government Wharves Regulations, Order in Council P.C. 1964-104 of January 23, 1964, from both fishing vessels and pleasure craft.

We pointed out that organized opposition to the wharfage charges had developed at some Marine Agencies and that one particular Marine Agency (Prince Rupert) had outstanding accounts receivable in excess of $20,000 relating to wharfage fees billed to boat owners prior to January 1967. At that time billing activity at this Agency had ceased with respect to those who had refused to pay, and none of these outstanding accounts had been collected. It was estimated that revenue in excess of $200,000 had been lost due to the breakdown in collection procedures at this Agency. Losses were also occurring at the Victoria Marine Agency.

Early in 1971 the Department recognized that more aggressive collection measures would have to be taken and all marine agents and district managers involved were advised that outstanding tolls and dues and any other moneys owing to the Crown should be recovered, by legal action if necessary. While this policy resulted in action being taken with respect to a number of accounts of relatively recent date, no action was taken with respect to any long outstanding balance.

Late in 1972 instructions were again issued to start collection action on the old accounts and to determine those that are uncollectable with a view towards submission for eventual write-off. In the meantime, while there has been an increase in the number of wharves under wharfinger supervision, attempts to enforce the Government Wharves Regulations have had varying degrees of success due to the fact that the majority of commercial fishermen continue to refuse to pay side wharfage.

Under the authority of Order in Council P.C. 1972-558 of March 23, 1972, the administration, management and control of the Prince Rupert Harbour, part of the Prince Rupert Marine Agency, was transferred to the National Harbours Board.

218. *Improper accounting for revenue.* In previous Reports (paragraph 193 in 1971) we have commented on the accounting procedures followed by the Department of Transport at certain airports where costs were being charged against revenues derived from parking lots and from landing and parking fees for unscheduled itinerant aircraft.

The practice continued during 1971-72 and costs totalling $324,000 comprising management fees, $230,000, parking lot equipment, $77,000, and agents' remuneration for collection of landing and parking fees, $17,000, were charged to revenue instead of to an appropriation, with the result that both the revenue and the expenditure of the year were understated by that amount.

The Public Accounts Committee was advised by departmental officials on May 25, 1971, that in future these revenues and expenditures were to be recorded on a gross rather than on a net basis. The change was made with effect from April 1, 1972.

219. *Cost of acquiring and placing in service the Motor Vessel Manic.* In June 1971 the Department of Transport acquired the Motor Vessel *Manic* from the Province of Quebec for the nominal price of one dollar and a contribution of $6 million towards the cost of a new icebreaker type ferry (see paragraph 195 of this Report) to be constructed by the Province for service in the St. Lawrence River. In addition the Province was to assume full responsibility for paying the annual subsidies on five intra-provincial ferry services which amounted to $255,000 in 1971-72.

The Department planned to use the *Manic* to establish a car-passenger service between Souris, P.E.I., and the Magdalen Islands, Que., in July 1971. Although the Department was aware that the vessel had received damage on a number of occasions, and that the Department of Supply and Services had estimated the cost of repairs and alterations at $685,000, it decided to proceed with the minimum repairs required to permit a change in vessel classification. The Department of Supply and Services was directed to obtain tenders for this work, for which the Department of Transport provided $138,000.

A contract was awarded in June 1971 to the low bidder in the amount of $100,500 for known work; additional work arisings expected were at firm charge-out rates and estimated at $72,000. However, surveys in the contractor's yard revealed that extensive repairs to, and overhaul of, the main engines, auxiliary equipment and underwater hull were required. The contractor was instructed to proceed with this new work and the contract amount was subsequently increased to $525,500.

Upon completion early in August the vessel proceeded on a trial run from Montreal to Quebec City. A generator failure en route caused a layover of one night for repairs. Further machinery breakdowns occurred during the full-power trials and the vessel had to be towed back to Quebec City. At this point the trials were suspended and the Department turned the vessel over to the charterer who was to operate it, at the same time requesting the Department of Supply and Services to

undertake a detailed technical survey of the vessel to determine the work needed to place it in reliable operating condition.

The charterer was given a contract for the repairs which the survey indicated were necessary. He completed these at a cost of $187,600 including work on the engine and generator systems, $34,000, the ventilation system, $48,600, and the electrical system, $25,100. Trials were successfully completed on September 29, 1971.

The vessel entered into service on October 4, 1971, and was withdrawn for its winter lay-up on January 6, 1972. The total cost incurred for repair and refit to this time was $713,100 and the charterer subsequently was paid $23,800 for additional work.

In March 1972, the Department of Supply and Services arranged with a Halifax shipyard for the installation of permanent ballast and levelling pipes which together with new work introduced brought this contract to $130,200. During this period numerous other contracts were awarded for spare parts, engineering, etc., at a cost of $94,700 bringing the total repair and refit costs to $961,800, an escalation of $789,300 over the amount originally authorized.

Normally a one-year certificate would be issued to operate the *Manic* as a Home Trade Class II vessel. However, to September 1972 the vessel was operating on a month-to-month certificate pending approval of its stability data by the Steamship Inspection Service of the Department.

Only $100,500 of the total cost of $961,800 for the conversion and repair of the vessel was at firm prices established by competitive tendering. The cost of additional work on the original contract amounting to $397,000 was established by negotiating with the contractor to establish the man-hours and materials required and pricing them at the charge-out rates established in the original tendering process; to this limited extent this portion of the additional costs was influenced by competition. A premium of $28,000 for overtime work on the same contract, and the balance of the costs, were not subject to competition in any form.

The overtime premium of $28,000 resulted from an amendment approved by the Department of Supply and Services. Such an amendment permitting labour on additional work to be charged at overtime rates modifies significantly the ship repair policy stated by the Minister of Supply and Services when he appeared before the Public Accounts Committee on June 8, 1971, to report on his study of the 1966 refit of H.M.C.S. *Bonaventure*. He outlined a number of improvements in ship repair and refit contracting procedures which included:

> Improvement number seven—a condition of the tender and the subsequent contract is that the charge-out rate for all extra work, if such work is necessary, is firm and non-negotiable during the period of the contract.

The Department of Supply and Services is of the opinion that a more favourable price for the work would have been obtained had the additional work been included in the original competitive package.

The contracting procedures were not in accordance with the recommendation of the Public Accounts Committee in its Eighth Report 1966-67, presented to the House on November 3, 1966, (see Appendix 1, item 19) that

> in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contract subject to cost audit by government auditors.

220. *Procurement of aircraft.* In April 1971 the Department of Transport requested Treasury Board approval of the purchase of five aircraft at a total cost of $6.7 million to replace 30-year old aircraft it had been using to check aircraft navigation and instrument landing systems across Canada. The Department based its feasibility study of the replacement on the purchase of a specific type of aircraft. The aircraft, powered by Canadian-built engines, was chosen because no others had substantial Canadian content. In addition, the Department operates other aircraft manufactured by the same supplier, although of a different model.

The Treasury Board approved the replacement, in principle, and the Department subsequently requested the Department of Supply and Services to procure the aircraft for $5.2 million, submitting the supplier's proposal in the same amount with its own requisition.

Under the Department of Supply and Services Act, *R.S., c. S-18,* the Department of Supply and Services is responsible for the acquisition and provision of articles, supplies, machinery, equipment and other materiel for departments. Accordingly, the Department attempted to negotiate the price, setting as its target a reduction to about $4 million. It had arrived at this amount from incomplete information obtained from the United States manufacturer, his Canadian distributor and other sources. However, the manufacturer refused to provide a detailed cost breakdown and his distributor refused to define with any precision the services that justified his mark-up of 17%.

As the Department of Transport had expressed satisfaction with the price and requested that the contract be awarded at an early date (the first two aircraft were to be delivered in March 1972) and as the supplier had given warning of an imminent price increase, the Department of Supply and Services had to content itself with a reduction of $165,000 in the distributor's mark-up (to 13%) and a further reduction of $117,000 arising from the introduction of a standard foreign exchange escalation provision. Treasury Board authority to enter into the contract was obtained in September 1971.

Had the Department of Transport involved the Department of Supply and Services in the procurement earlier or had it accepted a few months delay, the Department of Supply and Services would have been able to seek competitive proposals. Competition might have reduced the price requested by the suggested

supplier, and the proposals would have permitted determination of the premium being paid to promote the sale of Canadian-built engines with a value of approximately $450,000.

221. *Contractual arrangements for the supply of aviation fuel.* Under a blanket authority issued by the Treasury Board, the Department of Supply and Services was authorized to enter into contractual arrangements to a limit of $2 million for the supply of heating and motive fuels, subject to certain conditions. One of the conditions was that the lowest qualified tender be accepted or successive lowest or only other tender where necessary to obtain the gallonage required.

In response to an invitation to tender for the supply in 1971-72 of aviation fuels and miscellaneous petroleum products to the Department of Transport maintenance base at Ottawa and Ottawa-based itinerant aircraft at other Canadian and overseas airports, five suppliers submitted quotations. Only two suppliers submitted firm prices and their prices were firm only for requirements at Ottawa. The first was unable to supply one of the items, and the prices quoted on the other three items were 4¢ per gallon higher than those of the second supplier. Despite the price advantage offered by the second supplier, the Department of Supply and Services issued contracts to both suppliers without directing the user Department to purchase its requirements at Ottawa from the low bidder. Neither the invitation to tender nor the tender indicated the quantities that would be required or supplied; so there seems to be no basis for an assumption by the Department that more than one supplier would be required at Ottawa.

During the year the Department of Transport purchased its requirements at Ottawa from both suppliers at a cost of $256,000, its purchases from the first supplier amounting to $137,000 and from the second supplier $119,000. Had the purchases from the first supplier been made from the second supplier, they would have cost $118,000, a saving of $19,000.

By issuing a contract for requirements at Ottawa to the first supplier who was not the lowest tenderer, the Department of Supply and Services failed to comply with one of the conditions stipulated by the Treasury Board, and contributed to what appears to be an administrative error.

222. *Escalating cost of contract, Malton, Ont.* In our 1971 Report (paragraph 204) we referred to the additional cost of $324,000 incurred by the Department of Transport due to the delay in processing tenders and awarding the contract for the construction of the superstructure of phase II, stage I of Terminal 2 at Toronto International Airport. In October 1970 the contract had been awarded in the amount of $13.8 million with a scheduled completion date of March 31, 1972.

The contractor immediately encountered poor soil and weather conditions which delayed commencement of his work until the 1970-71 winter season. Further delays were attributed to stop work orders and to the lack of design information and

approvals for the work to be undertaken. In June 1971 the contractor notified the Department that work projections at that time indicated the work could not be completed by June 30, 1972. A later estimate by the Department was that there had been a slippage in the completion date to the autumn of 1972.

Because of the need for the additional space to handle increasing passenger traffic volume and to provide relief to over-crowded conditions in the existing aeroquay, and because of anticipation by the construction industry of a serious labour problem in the Toronto area in 1972, the Department entered into negotiations with the contractor to expedite the project to ensure the availability of one passenger-processing module by April 1, 1972, and a second by June 30, 1972. Negotiations were concluded in November 1971 when the Department agreed to pay an amount not exceeding $2.5 million and, in return, the contractor guaranteed substantial completion of the two modules by the dates desired. The project was to operate on a two-shift basis thereby creating an anticipated additional 1,550 man-months of winter employment. The target dates were met and the contractor was paid $2,291,000.

Apart from the fact of the increase in cost, the Department does not appear to have obtained specific approval for the increase in the contract amount. It had made a combined submission to the Treasury Board for approval of an increase of $2.7 million in the total project costs and for authority to increase by $2.5 million the amount of the contract. The resulting authority, Treasury Board letter dated November 8, 1971, increased the approved total project costs by $4.3 million, which was $1.6 million more than had been sought, and indicated that no further submissions were to be made for the project.

223. *Cost of unused accommodation, Malton, Ont.* In October 1970, the Department of Transport noted that the opening of a second passenger terminal building at the Toronto International Airport would be delayed until at least the spring of 1972. The existing aeroquay which was designed to handle 3.5 million passengers was currently processing 5 million passengers annually and the Department considered that the most satisfactory method of obtaining relief from this congestion was to obtain alternate facilities for handling a sizable portion of the overload. In November 1970 the Department was authorized to enter into an agreement for the lease of 50,000 square feet of building space for a six-month period effective May 1, 1971, at a cost of $177,000, with an option to renew for another six-month period commencing May 1, 1972, at a cost of $147,000 provided the option was exercised prior to December 1, 1971.

Early in November 1971 the Department concluded negotiations for an accelerated construction program in order that beneficial occupancy of the second terminal building might be obtained by June 30, 1972. (See paragraph 222 of this Report.) Notwithstanding this, on November 19, 1971, the Department exercised the option to renew the lease for the period May 1 to October 31, 1972, the busy season.

During this period the Department used only 10,000 square feet of the space to store air terminal building furnishings and equipment and certain snow removal equipment. The Department also collected $6,000 for the rental of some outside storage space. However, attempts to sub-lease the building space were unsuccessful and the 40,000 square feet of unused space resulted in a non-productive cost of $111,000.

224. *Action for damages.* In our 1971 Report (paragraph 196) reference was made to a collision between two vessels in the St. Lawrence River down stream from Sorel, Que., which resulted in the total loss of one of the vessels. By petition of right, action for damages in excess of $5 million was taken against the Crown by suppliants who included underwriters, insurers and consignees of the cargo of the sunken vessel. The suppliants alleged that the collision had been caused by the displacement of a range light, under the control of the Department of Transport, which guided one vessel so close to the south bank that it sheered, crossed the navigation channel and collided with the other vessel. The judgment of the Exchequer Court of Canada, pronounced in September 1968, maintained the petition of right with costs, it being provided in the judgment that the matter of assessing damages was to be determined "by reference" and that in the event of an appeal, such reference was to take place after the appeal.

An appeal from the Exchequer Court judgment lodged by the Crown in the Supreme Court of Canada was heard in May 1970. In a judgment rendered on April 27, 1971, the Supreme Court ruled that the liability to make good the damage occasioned by this collision should be borne 50% by the Crown and 30% and 20% by those responsible for the navigation of the two vessels. The Court also recommended that the case be referred back to the Exchequer Court for disposition of a counterclaim by the owner of one of the vessels involved.

To December 7, 1972, the Crown had paid a total of $1.4 million on account of certain provable damage claims including interest, and legal costs.

225. *Deficiency in Government Annuities Account.* Section 15(1) of the Government Annuities Act, *R.S., c. G-6,* provides that:

> An account shall be kept, to be called the Government Annuities Account, of all moneys received and paid out under this Act, and of the assets and liabilities appertaining to the grant of annuities under this Act; and among the liabilities included in the said account at the end of each fiscal year shall appear the present value of the prospective annuities contracted for up to the end of such fiscal year.

An actuarial valuation of the Account as at March 31, 1972, disclosed a deficiency of $1,255,000. In order that the Account would record the full liability with respect to annuities at the end of the fiscal year, in accordance with the requirement of the Act, the Account was credited with the amount of the deficiency and a corresponding amount was recorded as a statutory vote charge of the Department of Manpower and Immigration, described in the Public Accounts as "Government annuities—

Payment required to maintain reserves, Government Annuities Act". This practice is consistent with that followed in previous years. In the years when an actuarial surplus was disclosed, the amount of the surplus was transferred to revenue of Canada.

The cumulative total of annual deficiencies since inception in 1909 is $34,495,000 while annual surpluses total $8,889,000, leaving a net amount of $25,606,000 paid by Canada to maintain the Account in a sound actuarial position. It is questionable whether the Act provides adequate authority for charging deficiencies to expenditure.

226. *Weakness in payroll cheque distribution controls.* A personnel clerk at a hospital operated by the Department of Veterans Affairs failed to remove from the payroll the name of an employee who had resigned and then manipulated documentation initiated by others to conceal the fact that the ex-employee was no longer working at the hospital. When the irregularity was discovered by personnel of the hospital, the clerk had in his possession payroll cheques totalling $12,000 which had been issued in the name of the ex-employee between August 1969 and October 1971.

The cheques were cancelled and our subsequent investigation disclosed that the dangerous situation had developed because of the almost complete lack of internal control within the hospital's payroll procedures.

227. *Federal-provincial shared-cost programs.* Information regarding Canada's contribution towards each of the larger federal-provincial shared-cost programs is available in the various tables in section 33 of Volume II of the Public Accounts. However, there is no consolidation showing the overall federal contribution to these programs.

In previous Reports (paragraph 210 in 1971) we have expressed the view that it would be informative to the House if a detailed summary were presented in the Public Accounts showing the numerous federal-provincial shared-cost programs and the federal share of the costs. The Public Accounts Committee considered this suggestion on February 2, 1971, and in its Fifth Report 1970-71, presented to the House on March 10, 1971, recommended that a detailed summary of these programs be provided as an appendix to the Public Accounts showing the federal share of the cost of each program on an annual and cumulative basis, and that the information on the federal share of each program be provided by province. (See Appendix 1, item 34.)

In October 1972 we wrote to the Deputy Receiver General for Canada inquiring whether he proposed including in the Public Accounts the detailed summary recommended by the Public Accounts Committee. We were advised that the 1971-72 Public Accounts did not include such a summary as it was felt that the time involved in the accumulation of the information would delay the production of the

Public Accounts. However, we were also advised that unless unforeseen problems arise, this summary should appear in the 1972-73 Public Accounts.

In 1971-72 Canada participated with one or more of the provinces in 88 shared-cost programs compared with 81 in 1970-71 as follows:

	1971-72	1970-71
Costs shared with:		
All provinces	10	13
More than one but not all provinces	43	47
Only one province	35	21
	88	81

During the year seven programs were completed while 14 new programs were started.

The federal expenditure under these programs in 1971-72 totalled $2,672 million compared with $2,334 million in 1970-71. A summary of expenditure by departments and programs, showing the amounts applicable to each province, with comparable figures for the previous year, appears as Appendix 2 to this Report.

Expenditures on all programs are the subject of test audit by us, the extent of the test in each case being determined by the nature of the program and the scope of the audits carried out by the provincial auditors prior to the submission of claims, and by the Audit Services Bureau of the Department of Supply and Services in those cases where the Bureau is requested by departments to carry out examinations. Many of the programs are complex and their terms subject to varying interpretations and applications. Because of this, and the fact that the programs comprise a major portion of Canada's total contributions, provincial records are examined by our regional representatives annually in connection with all programs coming under the jurisdiction of the Department of National Health and Welfare, excepting the medical care program, all programs coming under the Department of Manpower and Immigration, as well as a number of Agricultural and Rural Development Act programs and special area agreements under the Department of Regional Economic Expansion. No examinations of provincial records are made in respect of expenditures on the remainder of the programs; claims and supporting documentation relating to these are examined by us at the departmental offices responsible for their administration, reliance being placed on the audit certificate given by the provincial auditors as to the validity and correctness of the charges and on the direct examinations made of many of these programs by the Audit Services Bureau.

228. *Losses through the fraud, default or mistake of any person.* Section 61(1)(e) of the Financial Administration Act requires the Auditor General to report annually to the House of Commons every case in which he has observed that there has been a deficiency or loss through the fraud, default or mistake of any person.

During the year 62 losses totalling $210,759 were noted resulting from defalcations or other fraudulent acts of public officers, of which $43,515 was recovered, leaving net losses of $167,244. These are summarized as follows:

	Number	Initial loss	Recoveries	Net loss
Manpower and Immigration	1	$ 77,950	$	$ 77,950
National Defence	1	4,663		4,663
National Harbours Board	1	49,695		49,695
National Revenue—				
Taxation	5	390		390
	8	*132,698*		*132,698*
Post Office	54	78,061	43,515	34,546
	62	$ 210,759	$ 43,515	$ 167,244

The Post Office losses are chargeable to the Post Office Guarantee Fund and the other losses to the Public Officers Guarantee Account. Of this latter group only the five National Revenue, Taxation losses totalling $390 had been charged to the Account at the year-end. Furthermore, these were the only losses, of the eight losses in departments other than the Post Office, that were reported in the Public Accounts for 1971-72, as required by section 98(3) of the Financial Administration Act.

A net amount of $12,988 remaining from 13 fraudulent losses in six departments reported by us in prior years had not been charged to the Public Officers Guarantee Account at March 31, 1972, and, in fact, ten of these in four departments totalling $11,139 have never been reported in the Public Accounts. The oldest, amounting to $1,524, occurred in 1954-55.

In addition to losses involving public officers, there are inevitably, in the administration of the numerous and complex programs of the Government, some losses through the fraud, default or mistake of individuals outside the Public Service. These, when encountered in our test examinations, are brought to the attention of the administering department and, if significant, are commented on in our Report. Examples may be found in paragraphs 93, 164, 165 and 214 of this Report.

229. *Non-productive payments.* The Public Accounts Committee in its Fifth Report 1961, in its Sixth Report 1964-65, and as recently as January 19, 1971, unanimously requested the Auditor General to include in his annual Report to the House of Commons any non-productive payments that come to his attention during the course of his annual audit.

Since 1961, in compliance with this request, there have been included in the Auditor General's annual Report details of non-productive payments that came to our attention during the course of the audit. Again this year we have sought to point

out the underlying causes, particularly where the circumstances appear to have been beyond the control of the department or agency to whose appropriation the charge was made.

The total of the non-productive payments this year is estimated at $8,842,000. Many of these originated in prior years but in most cases a payment was made in 1971-72. Of these cases, 24 have been described in the foregoing paragraphs while the remaining 10 are as follows:

1. PAYMENTS FOR UNUSED AIR TRANSPORTATION. In the spring of 1971 the Department of Manpower and Immigration initiated the International Student Summer Employment Exchange Program to assist Canadian students to obtain short-term employment abroad in the summer of 1971. Because of the late announcement of the Program, student participation was not as great as had been expected. The Department paid $2,600 for unoccupied space on a chartered flight and also reimbursed a student organization, which was providing services to participants in the Program, $800 towards a loss of $3,000 suffered by the organization as a result of the cancellation of six flights.

2. PLANS NOT USED BECAUSE OF CHANGES IN DEPARTMENTAL REQUIREMENTS, AMHERST, N.S. In December 1965 the Department of Public Works engaged a firm of consultants to design, prepare working drawings and specifications for, and subsequently supervise the construction of, a proposed federal building at Amherst to meet the accommodation requirements of four government departments.

   The preliminary plan was based on the space requirements calculated by the departments concerned. The departments, however, increased their estimated space requirements on three occasions, which would have necessitated an extension to the floor area beyond the limits of practicability of the original plans. Accordingly, the original concept was rejected in August 1968 and a new design ordered.

   The consultants completed the new design but before tenders were called two of the departments reduced their accommodation requirements because of phasing-out of operations (see paragraph 190 of this Report). Plans for the proposed building were then cancelled.

   The consultants were paid $27,700 for plans that were not used.

3. COST OF UNUSED OFFICE SPACE, TRENTON, ONT. To provide office accommodation for the Department of National Defence, the Department of Public Works leased space in a building in Trenton for a period of five years terminating June 30, 1971, at a rental of $11,200 per annum.

   On July 18, 1969, the Department of National Defence advised the Department of Public Works that the office in Trenton would be closed on July 31, 1969, as the operation for which the space had been acquired was being transferred to Toronto. Attempts to sublet the space or to negotiate cancellation of the lease proved unsuccessful.

   The cost of the unused office space from August 1, 1969, to June 30, 1971, twenty-three months, was $21,500.

4. ADDITIONAL COST DUE TO REVISION OF PLANS, COLLINS BAY, ONT. In 1966 the Department of Public Works, on behalf of the Canadian Penitentiary Service, appointed a firm of architects to provide services for five projects forming part of a rehabilitation construction program at Collins Bay Penitentiary. In our 1971 Report (paragraph 173, item 6) we referred to the

payment of $15,200 to the architects for the design of one of the proposed projects that had been deferred indefinitely.

Another project was the construction of a cell block to provide greater security and control of inmates. After the plans had been completed, the architects were instructed to make certain changes, including the redesign of the mezzanine control room, cell doors and heating system. The project was completed during the year at a cost of $555,800 including $12,600 for changes made to the original plans.

5. COST OF UNUSED PLANS, MONTREAL, QUE. Paragraph 170 of our 1971 Report dealt with a contract, awarded in 1969, for improvements to the postal terminal building in Montreal. The sequence of work, established by the Post Office Department after the contract had been awarded, restricted the activities of the contractor and resulted in a claim for delays that was settled for $148,000.

The contract included the installation of air conditioning and ventilation designed by a firm of consulting engineers. In August 1970 the contract with the consulting engineers was extended to include consulting services for the addition of an incinerator and modifications to the boiler room. The consultants then prepared drawings and specifications for the additional work, estimated to cost $499,000. However, the scope of the additional work was subsequently reduced and the work was completed at a cost of $286,000.

During 1971-72 the consultants were paid $8,900 for drawings and specifications relating to the work which was not carried out.

6. ADDITIONAL COST DUE TO CONSTRUCTION DELAY, OTTAWA. In August 1971 the Department of Public Works awarded a contract for an extension to the loading dock area at the Royal Canadian Mounted Police Headquarters, Ottawa. The project, estimated to cost $112,000, involved matching the new structure with and connecting it to the existing headquarters building. Due to inaccurate information supplied to the contractor concerning the headquarters building, several problems were encountered during construction that resulted in a change to the design and a delay of 21 days.

In December 1971 the contractor submitted a claim for $13,200 in respect of the delay. The claim was settled for $7,400.

7. ADDITIONAL COSTS DUE TO REVISION OF PLANS, OTTAWA. In May 1968 the Department of Public Works engaged a firm of consultants to design, prepare contract documents for, and supervise the construction of, a central cooling plant and a chilled water and an improved steam distribution system for a group of government-owned buildings in Tunney's Pasture, Ottawa. The estimated cost of the project was $3,030,000.

In September 1971, after designs and specifications had been completed, the Department instructed the consultants to change the point of entry of the chilled water and steam conduits into one of the buildings. As a result changes were required in the designs and specifications, for which the consultants were paid $3,100.

8. COSTS ARISING FROM CANCELLATION OF PROJECT, WINNIPEG, MAN. In August 1967 the Department of Public Works engaged a firm of architects to provide design services and prepare contract documents for the construction of a forest research laboratory at Winnipeg for the Department of Forestry and Rural Development (now the Department of the Environment).

In September 1967, following a Cabinet decision to reduce 1968-69 expenditures, the Department of Forestry and Rural Development reviewed its construction program and deferred construction of the forest research laboratory. In 1968-69 the architects were paid

$2,100 for services relating to the project. In April 1971 the architects were advised that as a result of a reorganization within the Department, it was unlikely that the building would be erected in the foreseeable future and that their engagement was therefore terminated.

9. COST OF ABANDONED PROJECT, OTTAWA. The construction of a heliport, for rapid transportation between the Ottawa International Airport and the Parliament Buildings, has been under consideration since 1963. In October 1970 the Department of Public Works, anticipating approval of the project by the Treasury Board, engaged a firm of consulting engineers to prepare contract documents and supervise construction of a heliport in an area adjacent to the Parliament Buildings.

The project was abandoned in August 1971 when it was decided that the site selected might be required for other purposes. The agreement with the consulting engineers was then terminated and $2,000 was paid for the work abandoned.

10. ADDITIONAL COSTS DUE TO ENGINEERING ERROR. In August 1969 the Department of Transport entered into a contract at an estimated cost of $390,000 at firm lump-sum and unit prices for the construction of a new automatic lighthouse and the demolition of the existing lighthouse at Ile aux Coudres, Que.

Late in 1969 after the concrete footing was poured, it was discovered that the Department's engineer had made an error in correlating the elevations shown on the contract drawings with those supplied by surveyors. The error resulted in the base of the structure being built about six feet higher than specified in the drawings and susceptible to damage by river ice.

Emergency measures were taken to protect the stability of the structure and to increase its resistance to the thrust of river ice. These measures consisted of placing riprap around and against the base of the pier and welding the joints of the sheet piling. The error in elevation also resulted in the use of more concrete and sand fill and in addition necessitated the rental of a larger crane to carry out the construction of the tower.

Additional costs incurred as a result of this error amounted to $81,000.

Summary of Assets and Liabilities

230. The Statement of Assets and Liabilities as at March 31, 1972, with comparative figures as at the end of the preceding year, prepared by the Receiver General for inclusion in the Public Accounts as required by section 55 of the Financial Administration Act and certified by the Auditor General, is reproduced as Exhibit 2 to this Report.

Assets

231. The following table shows the assets at March 31, 1972, by main headings in the Statement of Assets and Liabilities, and the corresponding balances at the close of the two previous years:

	March 31, 1972	March 31, 1971	March 31, 1970
Current assets	$ 1,959,901,000	$ 1,708,917,000	$ 1,183,194,000
Departmental working capital advances	171,966,000	194,312,000	189,187,000
Foreign exchange reserve accounts	6,657,606,000	5,727,305,000	4,020,400,000
Social security accounts	4,794,933,000	3,701,275,000	2,832,734,000
Investments held for retirement of unmatured debt	15,386,000	6,875,000	13,817,000
Advances, loans and investments— Domestic	13,749,683,000	12,191,363,000	10,921,076,000
Advances, loans and investments— External	1,838,899,000	1,706,887,000	1,633,008,000
Securities held in trust	128,673,000	124,491,000	114,363,000
Deferred charges	921,467,000	743,586,000	750,596,000
Inactive loans and investments	94,824,000	94,824,000	94,824,000
Total recorded assets	30,333,338,000	26,199,835,000	21,753,199,000
Less: Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net recorded assets	$ 29,786,954,000	$ 25,653,451,000	$ 21,206,815,000

232. *Current assets*. The balances included under this heading at March 31, 1972, with the comparable balances at the close of the two previous years, were:

	March 31, 1972	March 31, 1971	March 31, 1970
Cash	$ 1,823,883,000	$ 1,599,287,000	$ 1,042,206,000
Securities held for the Securities Investment Account	56,031,000	56,932,000	97,370,000
Other current assets	79,987,000	52,698,000	43,618,000
	$ 1,959,901,000	$ 1,708,917,000	$ 1,183,194,000

The $56,031,000 balance in the Securities Investment Account represents the amortized cost of securities of Canada held temporarily by the Minister of Finance under the authority of section 12 of the Financial Administration Act.

The total of $79,987,000 shown for "Other current assets" comprises Post Office cash on hand and in transit, $20,225,000, and cash totalling $59,762,000 received by departments after March 31, 1972, which was applicable to, and was recorded in, the 1971-72 accounts.

233. *Departmental working capital advances.* The balances included under this heading at March 31, 1972, with the comparable balances at the close of the two previous years, were:

	March 31,1972	March 31, 1971	March 31, 1970
Stockpiling of uranium concentrates	$ 101,183,000	$ 101,183,000	$ 94,621,000
Miscellaneous departmental accountable, imprest and standing advances	23,259,000	21,364,000	20,833,000
Defence Production Revolving Fund	14,185,000	36,260,000	27,600,000
Transport stores	8,213,000	8,667,000	8,184,000
Bullion and coinage	7,675,000	11,982,000	18,784,000
Canadian Government Supply Service	2,340,000	2,879,000	5,684,000
Other	15,111,000	11,977,000	13,481,000
	$ 171,966,000	$ 194,312,000	$ 189,187,000

The amount of $101,183,000 for stockpiling of uranium concentrates comprises the costs of acquiring and refining these concentrates together with storage to March 31, 1971. Subsequent storage charges have been paid from an appropriation of the Department of Energy, Mines and Resources.
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The item "Miscellaneous departmental accountable, imprest and standing advances" includes travel and other advances held by departments, government agencies and individuals over the year-end. The larger departmental totals of outstanding advances at March 31, 1972, were: Department of National Defence, $12,134,000; Canadian International Development Agency, $2,443,000; Department of Manpower and Immigration, $1,370,000; and Department of Labour, $1,143,000.

The Defence Production Revolving Fund, established under the authority of section 15 of the Defence Production Act, *R.S., c. D-2,* provides funds to finance the cost of stocks of defence supplies and essential materials and for working capital loans and advances to manufacturers of such supplies and materials.

234. *Foreign exchange reserve accounts.* The balances included under this heading at March 31, 1972, with comparable balances at the close of the two previous years, were:

	March 31, 1972	March 31, 1971	March 31, 1970
Exchange Fund Account	$ 5,516,279,000	$ 4,578,424,000	$ 3,220,400,000
International Monetary Fund— subscription to capital	1,141,327,000	1,148,881,000	800,000,000
	$ 6,657,606,000	$ 5,727,305,000	$ 4,020,400,000

The Exchange Fund Account is operated by the Bank of Canada on behalf of the Minister of Finance. The balance of the Account at March 31, 1972, $5,516,279,000, comprised cash advances of $5,146,000,000 and Canada's allocation of special drawing rights issued by the International Monetary Fund, $370,279,000.

Cash advances are made by the Minister from time to time within the maximum ($5,500,000,000 at March 31, 1972) authorized by the Governor in Council under section 15 of the Currency and Exchange Act, *R.S., c. C-39*. The market value of the net assets acquired from the cash advances to the Exchange Fund Account was $4,929,776,000 indicating an unrecorded deficit of $216,224,000.

Special drawing rights are a medium used by the International Monetary Fund, and by participating countries as reserves to increase international liquidity.

The decrease of $7,554,000 in the amount of Canada's subscription to the capital of the International Monetary Fund resulted from a refund by the International Monetary Fund due to an increase in the market value of the Canadian dollar in 1970-71.

235. *Social security accounts*. These comprise the Canada Pension Plan Investment Fund, $4,611,303,000, and advances to the Unemployment Insurance Account, $183,630,000.

Funds of the Canada Pension Plan, in excess of an amount estimated as required to meet all payments in the following three months, are available for investment in 20-year non-negotiable provincial and federal securities at the average market yield of outstanding negotiable bonds of Canada which are 20 years or more from maturity. Investments in these securities at March 31, 1972, with the comparable balances at the close of the two previous years, were as follows:

	March 31,1972	March 31,1971	March 31,1970
Ontario	$ 2,560,735,000	$ 2,062,407,000	$ 1,586,369,000
British Columbia	667,063,000	535,852,000	410,748,000
Alberta	428,252,000	341,141,000	258,819,000
Manitoba	271,547,000	217,816,000	166,345,000
Saskatchewan	217,421,000	174,690,000	131,822,000
Nova Scotia	178,451,000	142,736,000	108,695,000
New Brunswick	135,631,000	108,805,000	82,990,000
Newfoundland	87,918,000	70,316,000	53,487,000
Quebec	19,445,000	12,832,000	7,700,000
Prince Edward Island	17,479,000	13,859,000	10,385,000
Canada	27,361,000	20,821,000	15,374,000
	$ 4,611,303,000	$ 3,701,275,000	$ 2,832,734,000

The advances to the Unemployment Insurance Account were made under section 137 of the Unemployment Insurance Act, 1971, *1970-71-72, c.48,* when the amount standing to the credit of the Account was not sufficient for the payment of benefits and costs.

236. *Investments held for retirement of unmatured debt.* These investments amounting to $15,386,000 consist of 5 1/2% Canada bonds maturing on August 1, 1980, with a par value of $16,659,000, purchased under terms of issue whereby the Government is to endeavour to purchase quarterly, in the open market and under certain conditions, one-half of one per cent of the principal amount of the issues. During the year, bonds with a par value of $8,900,000 were purchased for $8,389,000 and the discount amortized and credited to revenue amounted to $122,000.

237. *Advances, loans and investments—Domestic.* The balances included under this heading at March 31, 1972, with comparable balances at the close of the two previous years, were:

	March 31, 1972	March 31, 1971	March 31, 1970
Loans to, and investments in, Crown corporations	$ 11,997,766,000	$ 10,755,254,000	$ 9,634,530,000
Loans to provincial governments	504,927,000	359,949,000	319,649,000
Veterans' Land Act Fund	533,015,000	520,723,000	498,728,000
Less: Reserve for conditional benefits	30,227,000	28,384,000	26,649,000
	502,788,000	*492,339,000*	*472,079,000*
Municipal Development and Loan Board	254,111,000	263,555,000	272,777,000
Miscellaneous	490,091,000	320,266,000	222,041,000
	$ 13,749,683,000	$ 12,191,363,000	$ 10,921,076,000

LOANS TO, AND INVESTMENTS IN, CROWN CORPORATIONS. The following table lists these loans and investments at March 31, 1972, with the comparable balances at the close of the two previous years:

	March 31, 1972	March 31, 1971	March 31, 1970
Central Mortgage and Housing Corporation	$ 5,693,987,000	$ 5,038,083,000	$ 4,441,789,000
Canadian National Railways	2,590,420,000	2,361,196,000	2,156,770,000
Farm Credit Corporation	1,207,190,000	1,176,750,000	1,127,727,000
The St. Lawrence Seaway Authority	679,729,000	618,643,000	562,714,000
Atomic Energy of Canada Limited	616,514,000	504,282,000	343,370,000
Export Development Corporation	472,354,000	354,398,000	273,513,000
National Harbours Board	273,502,000	270,239,000	265,696,000
Northern Canada Power Commission	52,432,000	49,410,000	44,673,000
Eldorado Nuclear Limited	44,197,000	35,247,000	25,477,000
Canadian Overseas Telecommunication Corporation	40,011,000	42,315,000	45,919,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000

	March 31, 1972	March 31, 1971	March 31, 1970
National Capital Commission, other than Greenbelt— see also below	$ 23,399,000	$ 23,399,000	$ 29,682,000
Northern Transportation Company Limited	16,850,000	16,100,000	10,000,000
Canadian Commercial Corporation	15,500,000	15,500,000	15,500,000
Uranium Canada, Limited	11,396,000	—	—
Canada Deposit Insurance Corporation	10,000,000	11,400,000	30,500,000
Freshwater Fish Marketing Corporation	10,000,000	4,800,000	2,200,000
Canadian Broadcasting Corporation—working capital—see also below	9,599,000	9,630,000	9,000,000
Cape Breton Development Corporation	8,000,000	4,000,000	8,000,000
Bank of Canada	5,920,000	5,920,000	5,920,000
Canadian Arsenals Limited	4,000,000	4,500,000	4,500,000
Canadian Film Development Corporation	3,866,000	3,087,000	1,748,000
Canadian National Railways—*re* acquisition and repair of passenger equipment	1,425,000	1,650,000	2,000,000
Royal Canadian Mint	1,000,000	1,000,000	2,000,000
Canadian National Railways—*re* Yarmouth —Bar Harbour Ferry	543,000	568,000	592,000
Canadian National (West Indies) Steamships, Limited	325,000	325,000	325,000
Canadian Patents and Development Limited	296,000	296,000	296,000
Canadian Dairy Commission	—	23,430,000	45,167,000
	11,822,455,000	*10,606,168,000*	*9,485,078,000*
Recovery likely to require parliamentary appropriations—			
Canadian Broadcasting corporation	137,480,000	111,005,000	112,005,000
National Capital Commission— Greenbelt	37,831,000	38,081,000	37,447,000
	175,311,000	*149,086,000*	*149,452,000*
	$ 11,997,766,000	$ 10,755,254,000	$ 9,634,530,000

The total of $11,997,766,000, an increase of $1,242,512,000 over the previous year, does not represent the total equity of Canada in its Crown corporations at March 31, 1972. This equity in fact amounted to $13,776,369,000 as shown by their individual financial statements published in Volume III of the Public Accounts and as summarized on page 11.25 of Volume I of the Public Accounts. The principal reason for this is that the accounts of Canada are maintained on a modified cash basis which does not provide for recording as assets such items as surpluses of Crown corporations or the cost of certain capital assets which have been charged to expenditure. In no sense does the Statement of Assets and Liabilities of the Government of Canada purport to be a consolidation including the accounts of its wholly-owned corporations. The corporations maintain their individual accounts on the accrual accounting basis followed in commercial practice and a number have financial years conforming to the cycle of their individual operations rather than the April 1 to March 31 fiscal year.

Advances to Central Mortgage and Housing Corporation pursuant to the National Housing Act, *R.S., c. N-10*, increased by $656 million due to further advances of: $756 million for loans in respect of public housing, less repayments of $183 million; $61 million for municipal sewage treatment projects, less repayments of $19 million; $35 million for student housing, less repayments of $1 million; and $8 million for urban renewal, less repayments of $1 million.

The total for the Canadian National Railways increased by $229 million due to:

(a) further investment in 4% preferred stock of the Company pursuant to section 6 of the Canadian National Railways Capital Revision Act, *R.S. 1952, c.311*, continued by the Canadian National Railways Financing and Guarantee Act, 1969, *1969-70, c.3*, and the Canadian National Railways Financing and Guarantee Act, 1970, *1970-71-72, c.17*	$ 31,121,000
(b) further advances under the authority of—	
Canadian National Railways Financing and Guarantee Act, 1941, *1940-41, c.12* Canadian National Railways Financing and Guarantee Act, 1942, *1942-43, c.22*	3,480,000
Canadian National Railways Refunding Act, 1955, *1955, c.31*	178,290,000
Canadian National Railways Financing and Guarantee Act, 1970, *1970-71-72, c.17*:	
Section 7—loans to Air Canada	14,000,000
Section 11—temporary financing of Canadian National Railways	9,032,000
Section 12—temporary financing of Air Canada	14,373,000
	250,296,000
Less: Repayment of advances made in the previous year for temporary financing	21,072,000
	$ 229,224,000

The amount shown for the Farm Credit Corporation increased by $30 million, due to further loans of $98 million less repayments of $69 million, and $1 million paid to the Corporation under section 12 of the Farm Credit Act, *R.S., c. F-2*, as additional capital.

The amount shown for The St. Lawrence Seaway Authority increased by $61 million during the year due to additional loans of $54 million and a net increase of $7 million in deferred interest. Included in loans to the Authority are interest-free loans of $75 million for the Welland Canal.

Loans to Atomic Energy of Canada Limited increased by $112 million due to further advances with respect to: Bruce heavy water and steam plant, $68 million; Pickering nuclear power station, $20 million; heavy water inventory, $10 million; Nelson River transmission line, $8.5 million; and Gentilly nuclear power station, $4.7 million.

Loans to, and investment in, the Export Development Corporation increased by $118 million. This change reflects net advances to enable the Corporation to provide long-term financing of export sales, $108 million, the purchase of additional stock, $5 million, and payment into capital surplus of $5 million as required by section 11(3) of the Export Development Act, *R.S., c. E-18*.

Loans to the National Harbours Board increased by $3.3 million due to advances of $1 million for Halifax Harbour, $2 million for Vancouver Harbour, and $278,000 for the Burrard Inlet Crossing engineering studies, authorized by Transport Vote L85, Appropriation Act No. 3, 1971, *1970-71-72, c.46*.

The amount shown for Eldorado Nuclear Limited increased by $8.9 million during the year due to further advances of $13.2 million authorized by Energy,

Mines and Resources Vote L60, Appropriation Act No. 3, 1971, *1970-71-72, c.46*, and repayments of $4.3 million.

Loans of $11,396,000 to Uranium Canada, Limited are actually payments for the acquisition for Canada of uranium concentrates, pursuant to Energy, Mines and Resources Vote L11c, Appropriation Act No. 1, 1971, *1970-71-72, c.25*. Uranium Canada, Limited is a Crown corporation incorporated in June 1971 under the provisions of the Canada Corporations Act, *R.S., c. C-32*, pursuant to section 10 of the Atomic Energy Control Act, *R.S., c. A-19*, to act on behalf of Canada with respect to the acquisition and sale of the stockpile of uranium concentrates established under a joint venture agreement with Denison Mines Limited.

Loans of $4.8 million to the Freshwater Fish Marketing Corporation were repaid during the year and further loans of $10 million were made under the authority of section 17 of the Freshwater Fish Marketing Act, *R.S., c. F-13*.

The amount shown for Canadian National Railways with respect to the government-owned Yarmouth—Bar Harbour Ferry includes the balance of an interest-free loan of $343,000 made under the authority of Transport Vote 542, Appropriation Act No. 4, 1954, *1953-54, c. 67*, and Transport Vote 546, Appropriation Act No. 5, 1955, *1955, c. 60*, towards the construction cost of a new dock and facilities at Bar Harbour, Maine, U.S.A., which are also government-owned. During the year $25,000 was repaid, the amount being charged as an operating cost of the ferry service, the net operating cost of which is provided for by an annual parliamentary appropriation. An interest-bearing loan of $200,000 was also made under the authority of Transport Vote 791, Appropriation Act No. 5, 1955, for the purpose of providing working capital for the operation of the Yarmouth—Bar Harbour Ferry.

The financing of the capital requirements of the Canadian Broadcasting Corporation continued to be by means of loans. Additional loans provided by Secretary of State Vote L55, Appropriation Act No. 3, 1970, *1969-70, c.46*, and by Secretary of State Vote L60, Appropriation Act No. 3, 1971, *1970-71-72, c.46*, totalled $33 million. Repayments during the year amounted to $6.5 million. Repayment of the loans of $137 million outstanding at March 31, 1972, will involve parliamentary appropriations over a period of years.

Since 1957-58, loans have been made to the National Capital Commission for the purpose of acquiring property in the Greenbelt. Repayments of $250,000 during the year reduced the outstanding balance to $38 million at March 31, 1972. There are no arrangements for repayment of these loans.

LOANS TO PROVINCIAL GOVERNMENTS. These loans at March 31, 1972, with comparable balances at the close of the two previous years, were:

	March 31, 1972	March 31, 1971	March 31, 1970
Quebec	$ 123,420,000	$ 72,252,000	$ 71,549,000
Newfoundland	114,371,000	99,332,000	74,093,000

	March 31, 1972	March 31, 1971	March 31, 1970
New Brunswick	$ 89,018,000	$ 70,444,000	$ 62,825,000
Nova Scotia	79,541,000	75,799,000	62,817,000
British Columbia	43,645,000	6,595,000	7,557,000
Saskatchewan	21,038,000	21,806,000	22,365,000
Manitoba	15,222,000	7,420,000	13,823,000
Alberta	8,723,000	4,225,000	4,041,000
Ontario	5,654,000	—	—
Prince Edward Island	4,295,000	2,076,000	579,000
	$ 504,927,000	$ 359,949,000	$ 319,649,000

The following schedule shows the nature of the loans to the provincial governments:

	March 31, 1972	March 31, 1971	March 31, 1970
Advances and loans pursuant to the Atlantic Provinces Power Development Act, *R.S., c. A-17*	$ 219,858,000	$ 216,554,000	$ 184,939,000
Special program— loans to assist in the creation of employment	150,512,000	12,000,000	—
Advances and loans for the development of community and industrial infrastructures	75,575,000	48,873,000	4,615,000
Treasury bill indebtedness of the Governments of the Western Provinces pursuant to the provisions of the Western Provinces Treasury Bills and Natural Resources Settlement Act, *1947, c.77*	21,031,000	24,477,000	27,877,000
Quebec share *re* guarantee 1967 World Exhibition loans	19,861,000	38,903,000	57,945,000
Saskatchewan—*re* South Saskatchewan River Project	12,337,000	12,337,000	12,337,000
Prince Edward Island— loans for financial assistance pursuant to an agreement under the authority of Regional Economic Expansion Vote L125, Appropriation Act No. 3, 1969, *1968-69, c.36*	3,832,000	2,041,000	391,000
Other	1,921,000	4,764,000	31,545,000
	$ 504,927,000	$ 359,949,000	$ 319,649,000

Advances and loans to the provinces pursuant to the Atlantic Provinces Power Development Act increased by $3.3 million over the preceding year due to further advances of $5 million under the authority of Regional Economic Expansion Vote L15, Appropriation Act No. 3, 1971, *1970-71-72, c.46*, and accrued interest of $3.7 million on completed projects, less repayments of $5.4 million.

Special program loans to assist in the creation of employment increased by $139 million. Finance Vote L13c, Appropriation Act No. 1, 1971, *1970-71-72, c.25*, authorized loans to a total of $160 million in the 1970-71 and 1971-72 fiscal years for the purpose of assisting in the creation of employment in areas where the number of unemployed workers was in excess of 4% of the labour force in the six-month period ending December 31, 1970. These loans were made to: Quebec, $70 million; British Columbia, $36 million; Manitoba, $7.7 million; Newfoundland, $6.7 million; Ontario, $5.6 million; New Brunswick, $5.4 million; Nova Scotia, $4.3 million; Alberta, $4 million; and Prince Edward Island, $429,000. In addition, Finance Vote

L19a, Appropriation Act No. 4, 1971, *1970-71-72, c.58,* authorized the Federal-Provincial Employment Loans Program 1971 under which loans may be made for capital development projects in 1971-72 and 1972-73 up to $160.5 million for the purpose of assisting in the creation of employment. The Vote provides forgiveness of that portion of the principal amount of the loans that is equal to 75% of the normal direct on-site payroll costs incurred and paid before June 1, 1972, on a capital development project. Loans were made to New Brunswick, $8 million, and to British Columbia, $2 million.

Advances and loans for the development of community and industrial infrastructures increased by $27 million due to further advances made under the authority of Regional Economic Expansion Vote L25, Appropriation Act No. 3, 1971, *1970-71-72, c.46.* Advances are made to the provinces to provide financial assistance for a wide range of community and industrial projects necessary to economic expansion and social adjustment in special areas. Upon completion of projects the advances together with accrued interest are transferred to loans. Advances and loans have been made to Quebec, $33 million; New Brunswick, $14 million; Nova Scotia, $13 million; Newfoundland, $11 million; Manitoba, $1.9 million; Alberta, $1.6 million; Saskatchewan, $1.1 million; and Prince Edward Island, $34,000. Included in these amounts are advances and loans of $6.7 million made by the Atlantic Development Board in connection with water system projects. Regional Economic Expansion Vote 10, Appropriation Act No. 3, 1971, authorizes the forgiveness of a portion of these loans covering the unused capacity of water systems as is determined under agreements entered into between Canada and the provinces and the provincial water authorities. In 1971-72 the amounts forgiven totalled $194,000. The outstanding loans totalling $75,575,000 bear interest at rates of from 6 1/8% to 8 1/2% and are repayable in periods of from 5 to 30 years.

MUNICIPAL DEVELOPMENT AND LOAN BOARD. Advances were made pursuant to the Municipal Development and Loan Act, *1963, c.13,* to provide financial assistance to augment or accelerate municipal capital works programs. The programs have all been completed. The loans are secured by municipal and provincial debentures payable over the useful life of the project, up to a maximum of 50 years. The majority of the loans are for terms of from 20 to 30 years.

MISCELLANEOUS. The balances included under this heading at March 31, 1972, with the comparable balances at the close of the two previous years, were:

	March 31, 1972	March 31, 1971	March 31, 1970
Loans for acquisition of capital assets—			
Airport capital loans	$ 136,806,000	$ 46,331,000	$ 5,126,000
Vancouver International Airport	6,798,000	4,204,000	—
Other	212,000	176,000	—
	143,816,000	*50,711,000*	*5,126,000*
Government of the Northwest Territories	47,516,000	30,027,000	20,917,000
Manufacturers of automotive products in Canada	37,852,000	40,262,000	33,752,000

	March 31, 1972	March 31, 1971	March 31, 1970
Investment in shares of Telesat Canada	$ 30,000,000	$ 10,000,000	$ —
Government of the Yukon Territory	28,814,000	25,391,000	20,496,000
Investment in shares of Panarctic Oils Ltd.	28,256,000	20,284,000	13,534,000
Canada Development Corporation	25,000,000	—	—
Manufacturers— defence plant modernization	24,909,000	20,768,000	18,341,000
Housing projects for the Canadian Forces	20,833,000	21,129,000	21,393,000
Government equity in agency account of Crown Assets Disposal Corporation	18,978,000	12,581,000	9,181,000
Hydro Quebec Research Institute	13,400,000	10,900,000	—
City of Montreal	12,942,000	13,512,000	14,082,000
Loans for Indian economic development	6,356,000	6,167,000	4,154,000
Assisted passage loans	6,146,000	6,922,000	9,227,000
Other	45,273,000	51,612,000	51,838,000
	$ 490,091,000	$ 320,266,000	$ 222,041,000

The amount shown for airport capital loans represents capital expenditure at Montreal and Toronto International Airports, originally authorized by Transport Vote L165, Appropriation Act No. 3, 1969, *1968-69, c.36.* Additional loans of $90 million were made during the year.

The amount of $30 million for Telesat Canada is the cost of Canada's investment in the capital stock of that Company. Section 38 of the Telesat Canada Act, *R.S., c. T-4,* provides that the Minister of Finance, with the approval of the Governor in Council, may subscribe for, acquire and hold common shares of the Company for Canada up to a maximum investment of $30 million. The objects of the Company are to establish satellite telecommunication systems providing, on a commercial basis, telecommunication services between locations in Canada.

The amount of $25 million for Canada Development Corporation is the cost of Canada's investment in the capital of that Corporation. Section 35 of the Canada Development Corporation Act, *1970-71-72, c.49,* provides that the Minister of Finance, with the approval of the Governor in Council, may subscribe for, acquire and hold shares of the Corporation for Canada. The objects of the Corporation are: to assist in the creation or development of businesses, resources, properties and industries of Canada; to expand, widen and develop opportunities for Canadians to participate in the economic development of Canada; to invest in the shares or securities of any corporation owning property or carrying on business related to the economic interests of Canada; and to invest in ventures or enterprises, including the acquisition of property, likely to benefit Canada.

During the year further loans of $2.5 million were made to the Hydro Quebec Research Institute under the authority of Energy, Mines and Resources Vote L10, Appropriation Act No. 3, 1971, *1970-71-72, c.46.* The loans were made to assist in the financing of the construction of laboratories and repayment is guaranteed by the Province of Quebec.

238. *Advances, loans and investments—External.* The balances included under this heading at March 31, 1972, with comparable balances at the close of the two previous years, were:

	March 31, 1972	March 31, 1971	March 31, 1970
Loans to national governments	$ 1,513,165,000	$ 1,406,097,000	$ 1,327,928,000
Subscriptions to capital of, and working capital advances and loans to, international organizations	325,734,000	275,036,000	247,038,000
Investments in United States dollar securities issued by other than the Government of Canada	—	25,754,000	58,042,000
	$ 1,838,899,000	$ 1,706,887,000	$ 1,633,008,000

LOANS TO NATIONAL GOVERNMENTS. The following is a listing of the balances of these loans at March 31, 1972, in comparison with the balances at the close of the two previous years:

	March 31, 1972	March 31, 1971	March 31, 1970
United Kingdom	$ 996,852,000	$ 1,017,670,000	$ 1,038,081,000
France	50,700,000	59,150,000	67,600,000
Netherlands	22,950,000	27,540,000	32,130,000
Belgium	11,535,000	13,842,000	16,149,000
Others	331,000	195,000	212,000
	1,082,368,000	*1,118,397,000*	*1,154,172,000*
Special assistance loans to developing countries:			
India	198,183,000	138,978,000	87,657,000
Pakistan	94,571,000	78,868,000	43,661,000
Nigeria	18,327,000	9,941,000	7,653,000
East African Community	12,649,000	2,558,000	—
Sri Lanka	12,312,000	9,473,000	7,502,000
Colombia	8,885,000	4,616,000	564,000
Jamaica	8,438,000	6,408,000	5,096,000
Trinidad and Tobago	6,626,000	6,363,000	5,101,000
Ghana	6,103,000	1,557,000	—
Guyana	6,036,000	5,369,000	2,782,000
Niger	5,608,000	—	—
Tunisia	5,514,000	2,612,000	1,947,000
Tanzania	5,143,000	2,888,000	2,550,000
Brazil	4,082,000	2,347,000	1,101,000
Botswana	3,978,000	—	—
Chile	3,825,000	3,084,000	728,000
El Salvador	3,434,000	3,240,000	3,240,000
Malaysia	3,143,000	1,009,000	—
Ecuador	2,540,000	1,214,000	1,108,000
Morocco	2,281,000	934,000	—
Dahomey	2,182,000	267,000	—
Togo	2,101,000	286,000	—
Ivory Coast	1,268,000	84,000	—
Afghanistan	1,263,000	—	—
Caribbean Agricultural Development Fund	1,250,000	—	—
Indonesia	1,230,000	—	—
Nepal	1,193,000	289,000	—
Caribbean Development Bank	1,009,000	—	—
Others	7,623,000	5,315,000	3,066,000
	430,797,000	*287,700,000*	*173,756,000*
	$ 1,513,165,000	$ 1,406,097,000	$ 1,327,928,000

The special assistance loans to developing countries increased by $143 million. These include loans of $42 million repayable over 40 years, following a grace period of 10 years from the date of execution of each agreement, which bear interest at 3/4 of 1% per annum on the amount of the loan committed less any repayments, and $361 million of interest-free loans, also repayable over 40 years with a grace period of 10 years.

SUBSCRIPTIONS TO CAPITAL OF, AND WORKING CAPITAL ADVANCES AND LOANS TO, INTERNATIONAL ORGANIZATIONS (exclusive of the International Monetary Fund). The following is a listing of the balances included under this heading at March 31, 1972, in comparison with the balances at the close of the two previous years:

	March 31, 1972	March 31, 1971	March 31, 1970
Subscriptions to capital—			
International Development Association	$ 214,843,000	$ 164,717,000	$ 139,803,000
International Bank for Reconstruction and Development	85,024,000	85,024,000	85,024,000
Asian Development Bank	13,358,000	13,358,000	10,811,000
International Finance Corporation	3,522,000	3,522,000	3,522,000
Caribbean Development Bank	2,611,000	1,820,000	1,081,000
	319,358,000	*268,441,000*	*240,241,000*
Working capital advances and loans—			
United Nations	5,746,000	5,978,000	6,181,000
UN organizations	607,000	600,000	600,000
Other	23,000	17,000	16,000
	6,376,000	*6,595,000*	*6,797,000*
	$ 325,734,000	$ 275,036,000	$ 247,038,000

Canada's subscription to the capital of the International Development Association was increased by $50 million during the year under authority of Finance Vote L5, Appropriation Act No. 3, 1971, *1970-71-72, c.46.*

During the year a further instalment, $791,000, of Canada's subscription to shares in the Caribbean Development Bank was paid under the authority of External Affairs Vote L36a, Appropriation Act No. 4, 1969, *1969-70, c.2.*

239. *Securities held in trust.* The amount of $128,673,000 at March 31, 1972, represents securities held for the following accounts: guarantee deposits in respect of oil and gas permits and mineral and timber rights, $113,162,000; deposits in respect of tax on recaptured capital cost allowances on commercial and fishing vessels, $6,692,000; guarantee deposits in respect of customs duties and excise taxes, $4,312,000; contractors' security deposits, $1,370,000; and other, $3,137,000.

240. *Deferred charges.* The balances included under this heading at March 31, 1972, with the comparable balances at the close of the two previous years, were:

	March 31, 1972	March 31, 1971	March 31, 1970
Unamortized portions of actuarial deficiencies—			
Public Service Superannuation Account	$ 402,670,000	$ 311,197,000	$ 283,708,000
Canadian Forces Superannuation Account	331,140,000	227,240,000	254,806,000

	March 31, 1972	March 31, 1971	March 31, 1970
Royal Canadian Mounted Police Superannuation Account	$ 18,748,000	$ 30,005,000	$ 29,283,000
	752,558,000	*568,442,000*	*567,797,000*
Unamortized loan flotation costs	168,909,000	175,144,000	182,799,000
	$ 921,467,000	$ 743,586,000	$ 750,596,000

The relative superannuation statutes provide that actuarial deficiencies resulting from salary revisions and periodical valuations of the Superannuation Accounts be charged to expenditure in five equal annual instalments. The item "Unamortized portions of actuarial deficiencies" represents the portions of the actuarial deficiencies to be charged to expenditure in subsequent years. During the year $473 million was charged to these Accounts as a result of salary revisions. Credits representing those portions of the actuarial deficiencies charged to expenditure in the year amounted to $289 million.

The item "Unamortized loan flotation costs" represents the unamortized portion of discounts and commissions paid on the flotation of loans. These costs are amortized, in the case of general loans, over the period from the date of issue to the earliest call date, if one is specified, otherwise to the maturity date of the loan, and in the case of Canada Savings Bonds over a period of five years from the date of issue.

241. *Inactive loans and investments.* The $94,824,000 shown for this item, which has remained unchanged for many years, comprises the following balances:

Loan to China in 1946 under the Export Credits Insurance Act, *R.S. 1952, c.105*	$ 49,426,000
Loans to Roumania in 1919 for the purchase of goods produced in Canada	24,329,000
Payments to chartered banks in the years 1951-52 to 1960-61 in implementation of guarantee, given under the Export Credits Insurance Act, of loans by the banks to Ming Sung Industrial Company Limited (carrying prior guarantee by the Government of China)	14,470,000
Loans to Greece in 1919 for the purchase of goods produced in Canada	6,525,000
Loan to Province of Saskatchewan in 1908 for the purchase of seed grain (most recent payment received in 1959-60)	74,000
	$ 94,824,000

Liabilities

242. The following table shows the liabilities at March 31, 1972, by main headings in the Statement of Assets and Liabilities, and the corresponding balances at the close of the two previous years:

	March 31, 1972	March 31, 1971	March 31, 1970
Current and demand liabilities	$ 2,681,179,000	$ 2,162,894,000	$ 1,830,426,000
Foreign exchange reserve accounts	1,120,279,000	888,424,000	498,400,000
Deposit and trust accounts	600,191,000	439,184,000	491,882,000
Annuity, insurance and pension accounts	15,576,281,000	13,774,978,000	12,162,890,000

	March 31, 1972	Mach 31, 1971	March 31, 1970
Undisbursed balances of appropriations to special accounts	$ 190,699,000	$ 266,598,000	$ 273,398,000
Refundable corporation tax	1,904,000	3,065,000	38,148,000
Provision for compound interest on Canada Savings Bonds	56,864,000	18,582,000	20,301,000
Deferred credits	231,735,000	216,814,000	192,928,000
Suspense accounts	6,003,000	4,130,000	4,584,000
Unmatured debt	27,258,500,000	25,201,156,000	22,637,140,000
	$ 47,723,635,000	$ 42,975,825,000	$ 38,150,097,000

243. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1972, in comparison with the balances at the close of the two previous years, were:

	March 31, 1972	March 31, 1971	March 31, 1970
Outstanding cheques	$ 737,049,000	$ 630,333,000	$ 515,880,000
Accounts payable	649,746,000	582,301,000	602,615,000
Interest due	559,156,000	325,577,000	161,642,000
Interest accrued	539,825,000	495,601,000	434,023,000
Unemployment Insurance Account —outstanding warrants	51,834,000	27,702,000	21,615,000
Outstanding post office money orders	33,785,000	34,230,000	34,539,000
Non-interest-bearing notes payable to international organizations	32,569,000	7,049,000	15,065,000
Matured debt	31,037,000	32,729,000	21,224,000
Salaries and wages accrued	27,821,000	14,287,000	8,970,000
Other	18,357,000	13,085,000	14,853,000
	$ 2,681,179,000	$ 2,162,894,000	$ 1,830,426,000

The amount shown for "Accounts payable" is the total of charges pertaining to the year for which cheques were issued in April of the following fiscal year.

The non-interest-bearing notes represent those portions of Canada's subscriptions to the capital of certain international agencies which are not covered by cash or gold. At March 31, 1972, $25 million was payable to the International Development Association, $6.6 million to the Asian Development Bank and $800,000 to the Caribbean Development Bank.

244. *Foreign exchange reserve accounts.* The balances included under this heading at March 31, 1972, with the comparable balances at the close of the two previous years, were:

	March 31, 1972	March 31, 1971	March 31, 1970
Non-interest- bearing notes payable to the International Monetary Fund	$ 750,000,000	$ 635,000,000	$ 364,000,000
Allocation of special drawing rights in the International Monetary Fund	370,279,000	253,424,000	134,400,000
	$ 1,120,279,000	$ 888,424,000	$ 498,400,000

The non-interest-bearing notes represent that portion of Canada's subscription to the capital of the International Monetary Fund which is not covered by cash or gold.

The liability in respect of the allocation of special drawing rights in the International Monetary Fund represents the obligation arising from Canada's participation in the Special Drawing Account. Special drawing rights are held by the Exchange Fund Account and form part of Canada's exchange reserves.

245. *Deposit and trust accounts.* The following is a summary of the balances included in this item at March 31, 1972, in comparison with the balances at the close of the two previous years:

	March 31, 1972	March 31, 1971	March 31, 1970
Provincial tax collection agreements	$ 216,513,000	$ 86,618,000	$ 174,281,000
Guarantee deposits	121,815,000	120,860,000	109,090,000
Deposits by Crown corporations	90,257,000	81,755,000	58,817,000
Indian trust funds	32,062,000	33,569,000	34,001,000
Contractors' holdbacks	21,152,000	15,933,000	16,127,000
Instalment purchase of bonds by public service employees	20,912,000	17,692,000	17,403,000
Prairie Farm Emergency Fund	14,367,000	15,183,000	16,088,000
Canadian Pension Commission (Administration trust fund)	14,257,000	13,257,000	13,472,000
Veterans care trust fund	9,332,000	9,832,000	9,154,000
Deposits respecting capital cost allowances on commercial and fishing vessels	9,007,000	3,415,000	3,151,000
Veterans' Land Act trust account	4,871,000	4,625,000	5,063,000
National Second Century Fund of British Columbia	4,615,000	—	—
Army Benevolent Fund	4,314,000	4,191,000	4,476,000
Post Office Savings Bank	3,566,000	3,675,000	3,944,000
Permanent services deferred pay	3,352,000	3,134,000	2,966,000
Other	29,799,000	25,445,000	23,849,000
	$ 600,191,000	$ 439,184,000	$ 491,882,000

The Federal Government collects provincial income taxes from persons on behalf of all provinces except Quebec and from corporations on behalf of all provinces except Ontario and Quebec. At March 31, 1972, collections had exceeded remittances by $216,513,000.

The $121,815,000 shown for guarantee deposits is largely cash and securities deposited with the departments as guarantees in respect of oil and gas permits, mineral and timber rights, and for payment of customs duties and excise taxes. The securities held are recorded as assets in the contra account "Securities held in trust".

Deposits by Crown corporations at March 31, 1972, comprised: Export Development Corporation, $43,976,000; National Harbours Board, $23,282,000; Canadian Dairy Commission, $18,856,000; Atomic Energy of Canada Limited, $3,000,000; Crown Assets Disposal Corporation, $700,000; Royal Canadian Mint, $348,000; and Canadian National (West Indies) Steamships, Limited, $95,000.

The Prairie Farm Assistance Act, *R.S., c. P-16,* imposes a levy of 1% on the price of grain purchased by licensees under the Canada Grain Act, *R.S., c. G-16,* and the moneys collected are credited to the Prairie Farm Emergency Fund. Awards are made to eligible farmers in areas affected by crop failures in the Provinces of Manitoba, Saskatchewan and Alberta and in the Peace River District of British Columbia. During 1971-72 credits to the Fund totalled $4 million while awards totalled $4.8 million.

The Canadian Pension Commission (Administration trust fund) account comprises veterans' pension payments administered by the Canadian Pension Commission, contributions received by the Commission to assist pensioners or their dependants, and detention allowances for Canadian seamen.

The Veterans care trust fund contains assigned pension moneys and other income of veterans who are receiving domiciliary care and treatment. Disbursements are made on behalf of the individual veterans in accordance with regulations approved by the Governor in Council.

Deposits respecting capital cost allowances on commercial and fishing vessels are made under the provisions of the Income Tax Act, *R.S. 1952, c.148,* which permit an owner of a vessel, at the time of its disposal, to deposit with the Department of Industry, Trade and Commerce an amount at least equal to the tax that would otherwise be payable in respect of the proceeds of disposition. Such a deposit may be paid out to any person who, before 1974, acquires a vessel constructed in Canada or incurs conversion costs in Canada with respect to a vessel, under conditions satisfactory to the Minister of Industry, Trade and Commerce. New deposits during the year amounted to $8.6 million.

The Veterans' Land Act trust account is the repository of advance payments by veterans in connection with the purchase of land, payment of taxes, insurance, etc., and of proceeds of insurance claims to be used for the repair of fire damage.

During the year a sum of $4,500,000 was credited to an account entitled National Second Century Fund of British Columbia, the charge being to Secretary of State Vote 22a, Appropriation Act No. 4, 1970, *1970-71-72, c.4.* Interest at the rate of 7 3/8% amounting to $165,000 was credited, and expenditures of $50,000 were charged to the account, leaving a balance of $4,615,000 at the year-end.

The $29,799,000 shown for "Other" balances at March 31, 1972, is the total of 81 balances including: Immigration guarantee fund, $2,729,000; Common school funds, $2,678,000; National Research Council of Canada special fund, $1,962,000; Emergency gold mining assistance holdbacks, $1,472,000; and World War II claims fund, $1,295,000.

246. *Annuity, insurance and pension accounts.* The balances included under this heading at March 31, 1972, with comparable figures at the close of the two previous years, were:

	March 31, 1972	March 31, 1971	March 31, 1970
Superannuation accounts—			
Public Service	$ 4,488,550,000	$ 3,990,007,000	$ 3,599,428,000
Canadian Forces	3,960,102,000	3,570,639,000	3,306,389,000
Royal Canadian Mounted Police	223,658,000	199,717,000	165,765,000
	8,672,310,000	*7,760,363,000*	*7,071,582,000*
Social security accounts—			
Canada Pension Plan Account	4,778,459,000	3,843,577,000	2,932,258,000
Old Age Security Fund	641,100,000	728,422,000	721,398,000
Unemployment Insurance Account	36,897,000	(2,646,000)	(9,840,000)
	5,456,456,000	*4,569,353,000*	*3,643,816,000*
Government Annuities Account	1,303,790,000	1,313,779,000	1,321,080,000
Other	143,725,000	131,483,000	126,412,000
	$ 15,576,281,000	$ 13,774,978,000	$ 12,162,890,000

NOTE. The figures for the Unemployment Insurance Account now take into account outstanding unemployment insurance warrants which in prior years were not recorded in the Statement of Assets and Liabilities. The balance at March 31, 1972, is the unspent amount of a loan of $183,630,000 from the Minister of Finance.

Summaries of the transactions during the past three years in certain of the accounts follow:

PUBLIC SERVICE SUPERANNUATION ACCOUNT

	Year ended March 31		
	1972	1971	1970
Balance at beginning of year	$ 3,990,007,000	$ 3,599,428,000	$ 3,178,377,000
Add:			
Actuarial adjustments — contra — "deferred charges" account, *re*:			
pay increases	244,200,000	161,800,000	163,900,000
deficit at December 31, 1967	—	—	51,194,000
Interest	163,707,000	147,694,000	130,993,000
Contributions by participants	111,706,000	95,488,000	90,987,000
Contributions by the Government	95,934,000	92,133,000	78,835,000
Other credits	1,632,000	1,129,000	1,023,000
	617,179,000	*498,244,000*	*516,932,000*
	4,607,186,000	4,097,672,000	3,695,309,000
Deduct:			
Annuity payments	106,234,000	94,800,000	83,326,000
Termination allowances and return of contributions	10,906,000	11,320,000	10,525,000
Other charges	1,496,000	1,545,000	2,030,000
	118,636,000	*107,665,000*	*95,881,000*
Balance at end of year	$ 4,488,550,000	$ 3,990,007,000	$ 3,599,428,000

CANADIAN FORCES SUPERANNUATION ACCOUNT

	Year ended March 31		
	1972	1971	1970
Balance at beginning of year	$ 3,570,639,000	$ 3,306,389,000	$ 3,023,617,000
Add:			
Actuarial adjustments— contra—"deferred charges" account, *re* pay increases	228,900,000	107,500,000	129,000,000
Interest	147,479,000	135,639,000	124,396,000
Contributions by the Government	73,789,000	70,407,000	65,566,000
Contributions by participants	41,508,000	39,178,000	38,724,000
Other credits	33,000	1,000	4,000
	491,709,000	*352,725,000*	*357,690,000*
	4,062,348,000	3,659,114,000	3,381,307,000
Deduct:			
Annuity payments	97,255,000	82,051,000	67,426,000
Termination allowances and return of contributions	4,693,000	6,277,000	7,427,000
Other charges	298,000	147,000	65,000
	102,246,000	*88,475,000*	*74,918,000*
Balance at end of year	$ 3,960,102,000	$ 3,570,639,000	$ 3,306,389,000

ROYAL CANADIAN MOUNTED POLICE SUPERANNUATION ACCOUNT

	Year ended March 31		
	1972	1971	1970
Balance at beginning of year	$ 199,717,000	$ 165,765,000	$ 130,811,000
Add:			
Actuarial adjustments — contra — "deferred charges"	—	14,200,000	19,200,000
Contributions by the Government	11,059,000	9,115,000	7,372,000
Interest	8,326,000	6,908,000	5,455,000
Contributions by participants	6,269,000	5,211,000	4,196,000
Contributions by Newfoundland	17,000	17,000	17,000
Other credits	56,000	26,000	30,000
	25,727,000	*35,477,000*	*36,270,000*
	225,444,000	201,242,000	167,081,000
Deduct:			
Annuity payments	1,532,000	1,260,000	996,000
Termination allowances and return of contributions	243,000	250,000	304,000
Other charges	11,000	15,000	16,000
	1,786,000	*1,525,000*	*1,316,000*
Balance at end of year	$ 223,658,000	$ 199,717,000	$ 165,765,000

CANADA PENSION PLAN ACCOUNT

	Year ended March 31		
	1972	1971	1970
Balance at beginning of year	$ 3,843,577,000	$ 2,932,258,000	$ 2,107,758,000
Add:			
Contributions from employers and employees	826,011,000	812,867,000	745,646,000

	Year ended march 31		
	1972	1972	1970
Interest	$ 275,594,000	$ 206,646,000	$ 143,508,000
Other credits	544,000	549,000	404,000
	1,102,149,000	*1,020,062,000*	*889,558,000*
	4,945,726,000	3,952,320,000	2,997,316,000
Deduct:			
Benefit payments	144,379,000	89,236,000	47,346,000
Administrative expense	22,888,000	19,507,000	17,712,000
	167,267,000	*108,743,000*	*65,058,000*
Balance at end of year	$ 4,778,459,000	$ 3,843,577,000	$ 2,932,258,000

OLD AGE SECURITY FUND

	Year ended March 31		
	1972	1971	1970
Collection of tax—			
On sales	$ 668,533,000	$ 573,849,000	$ 577,441,000
On personal incomes	1,237,000,000	1,132,500,000	1,026,500,000
On corporation incomes	212,500,000	207,900,000	227,100,000
	2,118,033,000	1,914,249,000	1,831,041,000
Payment of pensions under the Old Age Security Act	2,205,355,000	1,907,225,000	1,730,535,000
(Deficit) Surplus for the year	(87,322,000)	7,024,000	100,506,000
Preceding year's surplus brought forward	728,422,000	721,398,000	620,892,000
Surplus at end of year	$ 641,100,000	$ 728,422,000	$ 721,398,000

GOVERNMENT ANNUITIES ACCOUNT

	Year ended March 31		
	1972	1971	1970
Balance at beginning of year	$ 1,313,779,000	$ 1,321,080,000	$ 1,324,635,000
Add:			
Interest	50,777,000	51,051,000	51,092,000
Premiums	7,820,000	11,066,000	12,896,000
Actuarial adjustment charged to expenditure	1,255,000	—	—
Sundry adjustments	57,000	29,000	26,000
	59,909,000	*62,146,000*	*64,014,000*
	1,373,688,000	1,383,226,000	1,388,649,000
Deduct:			
Vested annuity and commuted value payments and refunds	69,898,000	68,690,000	67,167,000
Transfer to revenue of the excess over actuarial value of outstanding contracts	—	757,000	402,000
	69,898,000	*69,447,000*	*67,569,000*
Balance at end of year	$ 1,303,790,000	$ 1,313,779,000	$ 1,321,080,000

The following is a listing of "Other" annuity, insurance and pension accounts at March 31, 1972, in comparison with the balances at the close of the two previous years:

	March 31, 1972	March 31, 1971	March 31, 1970
Veterans Insurance Fund	$ 33,117,000	$ 32,685,000	$ 32,423,000
Public Service Death Benefit Account	24,560,000	21,368,000	19,048,000
Civil Service Insurance Fund	22,105,000	22,499,000	23,423,000
Regular Forces Death Benefit Account	22,092,000	21,460,000	20,696,000
Supplementary Retirement Benefits Account	13,735,000	6,587,000	—
Royal Canadian Mounted Police (Dependants) Pension Fund	8,517,000	8,494,000	8,439,000
Returned Soldiers' Insurance Fund	8,268,000	8,968,000	9,639,000
Members of Parliament Retiring Allowances Account	5,411,000	4,294,000	2,758,000
Crop Reinsurance Fund	4,367,000	3,694,000	4,569,000
Pilots' Pension Funds	625,000	605,000	4,479,000
Sundry	928,000	829,000	938,000
	$ 143,725,000	$ 131,483,000	$ 126,412,000

The Supplementary Retirement Benefits Account was established by the Supplementary Retirement Benefits Act, *R.S. (1st Supp.), c.43*, to provide for increases in pensions related to the cost of living (but limited to 2% per annum) for members of the Public Service, Canadian Forces, Royal Canadian Mounted Police, Parliament, and others. Participants contribute an amount equal to one-half of one per cent of salary and the Government matches this contribution. Interest is credited to the Account at a rate related to the market yield of outstanding Government of Canada bonds having a term to maturity of five years.

The following is a summary of the transactions in the Members of Parliament Retiring Allowances Account during the past three years:

	Year ended March 31		
	1972	1971	1970
Balance at beginning of year	$ 4,294,000	$ 2,758,000	$ 2,621,000
Add:			
Contributions by participants	664,000	638,000	235,000
Contributions by the Government	588,000	1,192,000	218,000
Interest	283,000	118,000	106,000
	1,535,000	*1,948,000*	*559,000*
	5,829,000	4,706,000	3,180,000
Deduct:			
Annual allowances	394,000	397,000	416,000
Withdrawal allowances and return of contributions	24,000	15,000	6,000
	418,000	*412,000*	*422,000*
Balance at end of year	$ 5,411,000	$ 4,294,000	$ 2,758,000

The Crop Reinsurance Fund was established by the Crop Insurance Act, *R.S., c. C-36*. During the year $673,000 paid by three provinces under reinsurance agreements was credited to the Fund. No claims were paid.

247. *Undisbursed balances of appropriations to special accounts.* The balances included under this heading at March 31, 1972, with the comparable balances at the close of the two previous years, were:

	March 31, 1972	March 31, 1971	March 31, 1970
International Assistance Account	$ 91,243,000	$ 82,599,000	$ 84,942,000
Reserve for salary revisions	37,638,000	99,213,000	64,332,000
Reserve for wheat inventory reduction and grassland incentive payments	26,927,000	42,412,000	100,000,000
Surplus Crown Assets Account— Department of National Defence	12,740,000	22,991,000	10,769,000
National Capital Fund—National Capital Commission	12,000,000	13,500,000	11,800,000
Railway Grade Crossing Fund	6,394,000	3,373,000	—
Other	3,757,000	2,510,000	1,555,000
	$ 190,699,000	$ 266,598,000	$ 273,398,000

The International Assistance Account was established under authority of External Affairs Vote 33d, Appropriation Act No. 2, 1965, *1964-65, c.50*. The Account provides for economic, technical, educational and social development assistance to developing countries and special administrative and other expenses in connection therewith. In 1971-72 the Account was credited with $75 million provided by External Affairs Vote 20 and charged with expenditure of $66 million.

During the year the Reserve for salary revisions was charged with $61,575,000 for salary revisions pertaining to the years 1970-71, 1969-70 and 1968-69. The practice of crediting the Reserve with the balance remaining in Treasury Board Vote 5 at the year-end has been discontinued.

The Reserve for wheat inventory reduction and grassland incentive payments was established by Agriculture Vote 17b, Appropriation Act No. 1, 1970, *1969-70, c.24,* to provide for payments of $6 per acre in 1970-71 for wheat acreage reduction, and related payments in 1971-72, up to a maximum of 1,000 acres per Canadian Wheat Board permit book-holder. The purposes of the Reserve were extended by Agriculture Vote 15c, Appropriation Act No. 1, 1971, *1970-71-72, c.25,* to provide for grassland incentive payments in 1971-72 and subsequent years to producers within designated areas as defined by the Canadian Wheat Board Act, *R.S., c. C-12.* Payments during the year totalled $15 million leaving an undisbursed balance of $27 million at March 31, 1972.

The Surplus Crown Assets Account—Department of National Defence was established by National Defence Vote 48 of Appropriation Act No. 2, 1966, *1966-67, c.3.* Proceeds from the sale of surplus materials, supplies, equipment and, subject to annual limits up to 1968-69, from the sale of surplus buildings, works and land are credited to the Account and, subject to approval of the Treasury Board, expenditure for any of the purposes of the Department of National Defence is charged to this Account. In 1971-72 the Account was credited with $14,127,000 and charged with expenditure of $24,378,000.

The National Capital Fund was established by the National Capital Act, *R.S., c. N-3,* to finance the cost of capital projects, as approved by the Governor in Council, in the national capital area. In 1971-72 the Fund was credited with $33.5 million provided by Urban Affairs and Housing Vote 20 and $35 million was transferred to the National Capital Commission to finance the costs of approved projects.

The Railway Grade Crossing Fund was established by section 202 of the Railway Act, *R.S., c. R-2.* The amounts credited to the Fund can be applied by the Canadian Transport Commission towards the cost, not including maintenance and operation, of work done in respect of existing crossings at rail level; of reconstruction and improvement of grade separations; and of placing reflective markings on the sides of railway cars. In 1971-72 the Fund was credited with $20 million provided by Transport Vote 70 and charged with expenditure of $17 million.

248. *Refundable corporation tax.* This account records amounts received from corporations and trusts as special refundable income tax computed in accordance with Part IID of the Income Tax Act, *R.S. 1952, c.148.* This special tax applied to the period May 1, 1966, to October 31, 1967, and is refundable, with interest at 5% per annum, from 18 to 36 months after the date of receipt. During the year $950,000, including interest of $226,000, was credited to this account and $2,111,000 was paid out, leaving a balance of $1,904,000.

249. *Provision for compound interest on Canada Savings Bonds.* Certain issues of Canada Savings Bonds provide for payment of additional interest where bondholders do not claim interest for certain stipulated periods of time. The balance of $56,864,000 in the account represents the provision to March 31, 1972, for this additional interest.

250. *Deferred credits.* The following is an analysis of this item at the close of the 1971-72 fiscal year and the two previous years:

	March 31, 1972	March 31, 1971	March 31, 1970
Deferred interest on loans made under The United Kingdom Financial Agreement Act, 1946, *1946, c.12*	$ 101,077,000	$ 101,077,000	$ 101,077,000
Deferred interest on loans to The St. Lawrence Seaway Authority	91,578,000	84,093,000	71,864,000
Equity in agency account of Crown Assets Disposal Corporation	18,978,000	12,581,000	9,181,000
Capitalized interest on loans to provincial governments pursuant to the Atlantic Provinces Power Development Act, *R.S., c. A-17*	15,955,000	15,736,000	8,843,000
Other balances	4,147,000	3,327,000	1,963,000
	$ 231,735,000	$ 216,814,000	$ 192,928,000

These amounts are credited to revenue as payments are received.

251. *Suspense accounts.* With certain exceptions these consist of balances where some uncertainty as to their disposition exists. The largest items are Unclaimed Cheques Account and National Defence Suspense Account which totalled $1.8 million and $1.2 million respectively at March 31, 1972.

252. *Unmatured debt.* A summary of the unmatured debt at March 31, 1972, with the comparable balances at the close of the two previous years, follows:

	March 31, 1972	March 31, 1971	March 31, 1970
Bonds—			
Payable in Canadian dollars	$ 23,093,112,000	$ 21,129,039,000	$ 19,295,185,000
Payable in United States dollars	261,544,000	263,273,000	265,003,000
Payable in German marks	73,844,000	73,844,000	73,844,000
Payable in Italian lire	—	—	108,108,000
	23,428,500,000	*21,466,156,000*	*19,742,140,000*
Treasury bills	3,830,000,000	3,735,000,000	2,895,000,000
	$ 27,258,500,000	$ 25,201,156,000	$ 22,637,140,000

The increase of $1,964 million in the bonds payable in Canadian dollars is the amount by which new borrowings of $4,705 million exceeded redemptions of $2,741 million. Canada Savings Bonds accounted for $1,907 million of the increase which resulted from $2,613 million of new issues and $706 million of redemptions.

The indebtedness payable in United States dollars is expressed in Canadian dollars at an exchange rate of $1 US = $1.08108 Canadian.

The indebtedness payable in German marks is converted to US currency at an exchange rate of DM3.66 = $1 US and then to Canadian dollars at a rate of $1 US = $1.08108 Canadian.

The treasury bill indebtedness of $3,830,000,000 comprises: three-month bills, $2,355,000,000; six-month bills, $1,075,000,000; and 364-day bills, $400,000,000.

Net Debt

253. With the Liabilities amounting to $47,723,635,000 (paragraph 242) and the Assets to $29,786,954,000 (paragraph 231), the Net Debt at March 31, 1972, was $17,936,681,000. The following is an analysis of the Net Debt Account for the year:

Balance at April 1, 1971		$ 17,322,374,000
Deficit for the year—		
Expenditure	$ 14,840,865,000	
Revenue	14,226,558,000	
		614,307,000
Balance at March 31, 1972		$ 17,936,681,000

Contingent Liabilities

254. A note on the Statement of Assets and Liabilities gives the totals of the several classes of contingent liabilities at the year-end and refers to page 10.83 of the Public Accounts (Volume I) where details are to be found.

The following is a summary of the contingent liabilities with determinate amounts outstanding at March 31, 1972, in comparison with the corresponding amounts at the close of the two previous years:

	March 31, 1972	March 31, 1971	March 31, 1970
Insured loans made by approved lenders under the National Housing Act, *R.S., c. N-10*	$ 9,225,000,000	$ 8,051,000,000	$ 7,327,000,000
Railway securities guaranteed as to principal and interest	821,712,000	1,004,537,000	1,050,476,000
Guarantees under the Export Development Act, *R.S., c. E-18,* and its predecessor, Export Credits Insurance Act, *R.S. 1952, c.105*	615,191,000	524,600,000	328,744,000
Loans made by chartered banks under various Acts	588,717,000	559,700,000	454,305,000
Loans made by chartered banks to the Canadian Wheat Board	327,048,000	338,032,000	578,000,000
Loans made under the Cape Breton Development Corporation Act, *R.S., c. C-13*	30,000,000	30,000,000	—
Home improvement loans under the National Housing Act	22,839,000	22,317,000	22,048,000
Loans made under the General Adjustment Assistance Program	17,199,000	6,823,000	—
Loans made under the Regional Development Incentives Act, *R.S., c. R-3,* and the Department of Regional Economic Expansion Act, *R.S., c. R-4*	1,652,000	—	—
	$ 11,649,358,000	$ 10,537,009,000	$ 9,760,573,000

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to 1954.

Comments on Assets and Liabilities

255. Section 55 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

256. *Statement of Assets and Liabilities—Policy.* The Statement of Assets and Liabilities as at March 31, 1972, was prepared by the Receiver General on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the Public Accounts:

> With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of $1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.
>
> On the liabilities side, accrued liabilities (except for interest accrued on the Public Debt) are not taken into account in determining the obligations of the government. However, under section 30 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the "current and demand liabilities" schedule to the statement of assets and liabilities.

This explanation reflects a policy established by the Minister of Finance in 1920, that assets to be included in the Statement of Assets and Liabilities should be confined to those which are readily convertible or which are revenue-producing. The Minister had immediately implemented this policy by removing from the Statement of Assets and Liabilities a substantial amount in loans, etc., which could not meet this test.

This policy has been followed by successive Ministers of Finance ever since but a major exception was introduced in 1957-58 when funds required by the National Capital Commission for the purchase of lands in the Greenbelt were recorded as loans to the Commission instead of budgetary expenditure as had formerly been the case. They were given the appearance of being revenue-producing by asking Parliament to appropriate money to the National Capital Commission with which to pay

interest on the loans. The practice was later extended to the financing of other agencies.

Brief details of exceptions to established policy, some of which we have commented on in previous Reports (paragraph 239 in 1971), are as follows:

Loans to, and investments in, Crown corporations

CANADIAN BROADCASTING CORPORATION. Funds required by the Corporation for capital expenditure since April 1, 1964 have been provided in the form of loans which amounted to $137,480,000 at March 31, 1972. Each loan is repayable in equal annual instalments over 20 years at interest rates varying from 5 1/4% to 8 1/2%. The necessity for making principal and interest payments on these loans increases the amount of the annual parliamentary appropriations for the operating requirements of the Corporation.

CANADIAN NATIONAL RAILWAYS. An amount of $735,000 was provided to the Canadian National Railways under authority of Transport Vote 542, Appropriation Act No. 4, 1954, *1953-54, c.67*, and Transport Vote 546, Appropriation Act No. 5, 1955, *1955, c.60*, towards the construction cost of a new dock and facilities at Bar Harbour, Maine, U.S.A. The loan, which does not bear interest, has been reduced by annual payments of about $25,000, to $343,000 at March 31, 1972. These annual payments are charged as an operating cost of the ferry service, thus increasing its annual deficit which is provided for by an annual appropriation of Parliament.

NATIONAL CAPITAL COMMISSION. Funds required by the Commission for the purchase of Greenbelt lands and certain other lands have, since 1957-58, been provided in the form of loans which amounted to $61,230,000 at March 31, 1972, comprising loans of $37,831,000 for acquiring Greenbelt lands and $23,399,000 for acquiring other lands. These loans bear interest at rates varying from 4% to 8 7/16% and are repayable only if and when the properties are sold or put into use by the Government for other than Greenbelt purposes.

Miscellaneous

GOVERNMENT OF THE NORTHWEST TERRITORIES. Of the loans to the Government of the Northwest Territories amounting to $47,516,000 at March 31, 1972, an aggregate of $44,961,000 represents loans made in the years 1959 to 1972 for capital expenditure purposes. The loans are repayable over periods of from 5 to 20 years and bear interest at rates varying from 4 1/8% to 8 1/2%. By agreement, Canada pays an annual amortization subsidy equivalent to the principal and interest due each year, less all moneys repaid to the Territorial Government in the year by local administrative districts in respect of loans made to them by the Territories from moneys borrowed from Canada.

GOVERNMENT OF THE YUKON TERRITORY. Of the loans to the Government of the Yukon Territory amounting to $28,814,000 at March 31, 1972, an aggregate of $23,680,000 represents loans made during the years 1958 to 1972 for capital expenditure purposes. The loans are repayable over periods of from 3 to 30 years and bear interest at rates varying from 4 1/8% to 8 1/2%. By agreement, Canada pays an annual amortization subsidy equivalent to the principal and interest due each year, less all moneys repaid to the Territorial Government in the year by the local administrative districts in respect of loans made to them by the Territory from moneys borrowed from Canada.

The Public Accounts Committee holds the view that outlays on property in the Greenbelt are expenditures of the Crown rather than income-producing investments and on two occasions requested the Department of Finance to review the practice with the National Capital Commission, with a view to placing the financing of the

Commission on a more realistic basis. (See Appendix 1, item 5.) In its Seventh Report 1966-67 the Public Accounts Committee stated that it was disturbed to learn that not only was no review undertaken by the Department of Finance in the case of the National Capital Commission, but that the practice was continued and further extended in 1964-65 when the House was asked to approve loans to the Canadian Broadcasting Corporation. The Committee reiterated its opinion that "expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada". (See Appendix 1, item 17.)

The practice of requesting Parliament to provide loan appropriations rather than grant appropriations was further extended in 1969 when Transport Votes L107b and L110b, Appropriation Act No. 1, 1969, *1968-69, c.23*, provided $16 million for the construction and acquisition of ferry vessels and $17 million to finance the construction of roads and bridges to improve transportation with respect to the Vancouver International Airport. Although, with minor exceptions, this was the first occasion on which it was proposed to depart from the long-standing policy of charging the cost of capital works to expenditure, the attention of the House of Commons was not directed to the change or to the fact that $33 million which would have been recorded as expenditure of the year under the established policy was not to be so charged, the result being a corresponding reduction in the recorded deficit for the year.

Expenditure made under the authority of Vote L107b has subsequently been transferred to Transport Vote 45b, Appropriation Act No. 1, 1972, *1972, c.1*, thus in effect reversing the decision to use a loan appropriation with respect to the construction and acquisition of ferry vessels.

When the 1968-69 Supplementary Estimates (B) were being considered by the Miscellaneous Estimates Committee on February 27, 1969, the Minister of Transport explained Vote L110b as follows:

> Actually these loans are for the construction of two bridges being built by the National Harbours Board; one over the Middle Arm of the Fraser and one over the North Arm called the Hudson Street Approach. These bridges will be operated as full facilities and the tolls will be used to pay off the loans.

In fact the bridges are being built by the Department of Transport as is evidenced by the fact that payments are recorded in the accounts of the Department and not in the accounts of the National Harbours Board.

Moneys advanced under authority of these and some other loan votes and recorded under "Advances, loans and investments—Domestic" are not loans but are in fact funds provided for the acquisition of capital assets. Brief details of these exceptions to established policy follow:

AIRPORTS CAPITAL LOANS. During the year capital expenditure totalling $103,281,000 at the Montreal and Toronto International Airports was charged to the Airports Revolving Fund pursuant to Transport Vote L160, Appropriation Act No. 3, 1969, *1968-69, c.36*, which author-

ized the operation of the Fund. To the extent of $12,806,000, this capital expenditure was financed from revenue under authority of Transport Vote L160, with the remaining $90,475,000 being provided from Transport Vote L35, Appropriation Act No. 3, 1971, *1970-71-72, c.46,* which authorized payment of $130,008,000 in 1971-72 and subsequent fiscal years. At March 31, 1972, a total of $136,806,000 had been advanced as airports capital loans.

VANCOUVER INTERNATIONAL AIRPORT—CONSTRUCTION OF BRIDGES. At March 31, 1972, a total of $6,798,000 had been paid from Transport Vote L110b, Appropriation Act No. 1, 1969, *1968-69, c.23,* for the acquisition of the required land and to contractors for work performed. This Vote authorized loans to an amount of $17,125,000 in 1968-69 and subsequent fiscal years to finance the construction of bridges and a network of arterial roads to improve transportation to the Vancouver International Airport. Advances during the year amounted to $2,594,000.

COMPUTER SERVICES BUREAU. A loan was made to the Computer Services Bureau Revolving Fund under the authority of Supply and Services Vote L11c, Appropriation Act No. 1, 1971, *1970-71-72, c.25,* to cover the estimated depreciated value of the Bureau's capital assets as at March 31, 1971. The balance of the loan as at March 31, 1972, was $119,000.

PASSPORT OFFICE REVOLVING FUND. External Affairs Vote L12, Appropriation Act No. 3, 1971, *1970-71-72, c.46,* authorized a loan of $133,000 for the purchase of capital equipment. During the year $79,000 was loaned and $1,000 was repaid, the balance of the loan being $78,000 at March 31, 1972.

RACE TRACK SUPERVISION REVOLVING FUND. A loan of $13,000 was made to the Race Track Supervision Revolving Fund under the authority of Agriculture Vote L16a, Appropriation Act No. 4, 1971, *1970-71-72, c.58,* for the purchase of equipment.

CANADIAN GOVERNMENT PHOTO CENTRE REVOLVING FUND. Secretary of State Vote L85, Appropriation Act No. 3, 1971, *1970-71-72, c.46,* authorized a loan of $100,000 for the purchase of capital equipment for the Canadian Government Photo Centre. An amount of $2,000 was loaned during the year and was outstanding at the year-end.

Under the policy outlined at the beginning of this section, the cost of government buildings, vessels and other capital works and equipment is charged to expenditure at the time of acquisition or construction because departments are dependent on public revenue for their capital needs. The Crown corporations and other bodies referred to previously are also dependent on public revenue for their capital needs.

These exceptions to long-standing policy have had the effect of understating the Deficit or overstating the Surplus in the Public Accounts each year since 1958. To the extent that parliamentary appropriations are required in later years to provide for repayment of the loans, the Deficit will increase or the Surplus decrease in those years. (See paragraph 58 of this Report.)

If certain capital assets are to be included in the Statement of Assets and Liabilities, then a formal change of policy is required and steps should also be taken to bring all similar capital assets on to the Statement. Furthermore, the assets should be described as capital assets and should not be categorized as loans, which is incorrect.

257. *Accounts receivable.* Taxes and sundry accounts receivable are not recorded as assets in the Statement of Assets and Liabilities but information regarding these accounts at March 31, 1972, in comparison with the corresponding information at the close of the preceding year, is set forth in the Comparative Statement of Accounts Receivable in section 29 of Volume II of the Public Accounts. This Statement shows a total of $591 million of which $33 million is classified as uncollectable.

There are a number of inaccuracies in the Statement. For example, the total recorded for the Department of Industry, Trade and Commerce is $992,000 whereas it should be at least $1,485,000 and the total of $5,129,000 recorded for the Department of Public Works should be $10,388,000. The Department of Indian Affairs and Northern Development shows $105,000 as receivable from other government departments whereas, in fact, $70,000 of this amount is an internal matter, being an unsettled account between branches of the Department.

Deletions from accounts receivable during the year were as follows:

	Number of accounts	Amount
Appropriation Act No. 4, 1971, *1970-71-72, c.58,* and Appropriation Act No. 1, 1972, *1972, c.1*—Various departmental votes—amounts in excess of $5,000	425	$ 9,097,000
Financial Administration Act— section 18—amounts of $5,000 or less	20,135	6,003,000
Bankruptcy Act, *R.S., c. B-3*—section 148—discharged bankrupts	1,946	1,814,000
Unemployment Insurance Act, *R.S., c. U-2*—		
section 42—unpaid contributions	3,450	782,000
section 67—overpaid benefits	26,314	1,309,000
	29,764	*2,091,000*
	52,270	$ 19,005,000

A summary of deletions by department follows:

	Number of accounts	Amount
Agriculture	1,181	$ 20,000
External Affairs	150	10,000
Finance	1,155	944,000
Indian Affairs and Northern Development	660	122,000
Manpower and Immigration—		
Department	7,674	433,000
Unemployment Insurance Commission	166	5,000
Unemployment Insurance Account	29,764	2,091,000
	37,604	*2,529,000*
National Defence	194	51,000
National Health and Welfare	97	3,000
National Revenue—		
Customs and Excise	1,047	704,000
Taxation	8,365	14,220,000
	9,412	*14,924,000*
Post Office	116	2,000
Public Works	121	22,000

	Number of accounts	Amount
Solicitor General—		
Correctional Services	21	$ 1,000
Royal Canadian Mounted Police	7	2,000
	28	*3,000*
Supply and Services—		
Department	1	32,000
Information Canada	191	4,000
	192	*36,000*
Transport	478	22,000
Veterans Affairs	777	315,000
Other	105	2,000
	52,270	$ 19,005,000

We have established $2,979,000, compared with $1,157,000 at the close of the previous fiscal year, as the total of the interdepartmental accounts which should have been settled before the books were closed for the year. Of this amount $94,000 remains outstanding from previous years. A listing, by department, of amounts due from other departments at March 31, 1972, follows:

	Accounts arising in	
	Current year	Prior years
Communications	$ 13,000	$ —
Energy, Mines and Resources	12,000	—
Environment	32,000	—
Indian Affairs and Northern Development	75,000	30,000
Industry, Trade and Commerce	—	3,000
Justice	13,000	—
National Defence	345,000	—
National Health and Welfare	282,000	16,000
National Revenue— Customs and Excise	1,114,000	—
Parliament	3,000	—
Public Works	484,000	—
Secretary of State	11,000	—
Solicitor General	104,000	—
Supply and Services	49,000	3,000
Transport	300,000	37,000
Treasury Board— National Research Council of Canada	38,000	—
Veterans Affairs	7,000	1,000
Other	3,000	4,000
	$ 2,885,000	$ 94,000

These accounts were not settled due to delays in submitting billings or delays by debtor departments in processing invoices. Failure to settle them at the year-end results in the expenditure of some departments being understated and, conversely, the expenditure of servicing departments being overstated. The interdepartmental account receivable of $1,114,000 reported by the Department of National Revenue, Customs and Excise, was due from the Department of National Defence.

While there has again been some improvement in the keeping of these accounts, test examinations during the year have indicated that in some departments the handling of accounts receivable still falls short of desirable standards. Comments on these departments along with pertinent information with regard to the receivables of other departments are set forth in the ensuing paragraphs.

258. *Accounts receivable—Department of National Revenue.* Of the accounts receivable of $591 million at March 31, 1972, $526 million relates to the Department of National Revenue. With the co-operation of officials of the Department, analyses have been prepared showing the nature and amounts of these unpaid accounts. Further details are to be found in the report of the Department of National Revenue for the year ended March 31, 1972, and on pages 29.4 and 29.5 of Volume II of the Public Accounts.

CUSTOMS AND EXCISE. The following is a summary of the accounts receivable at March 31, 1972, with comparable amounts at the close of the previous year:

	March 31, 1972	March 31, 1971
Excise taxes	$ 13,018,000	$ 10,321,000
Duties and taxes on importations	4,428,000	2,455,000
Customs seizures	1,825,000	1,457,000
Investigations	132,000	55,000
Sundry	9,000	13,000
	$ 19,412,000	$ 14,301,000

Of the total of $19.4 million, collection action was being taken on 7,045 accounts totalling $7.3 million (37.6%). The remaining $12.1 million had not been collected for the following reasons:

	Number of accounts	Amount
Under appeal	3,731	$ 4,895,000
Insolvencies	922	4,689,000
Uncollectable	540	2,514,000
	5,193	$ 12,098,000

These accounts receivable do not include duties and taxes owing on goods that have been imported illegally where the Minister had not rendered a decision as to the penalties to be imposed.

Of the $13 million of excise taxes receivable, which includes $2.7 million in penalties, the Department estimates that $4.5 million will not be collected.

Duties and taxes on importations include $1,114,000 owing by the Department of National Defence at March 31, 1972. This amount was collected in June 1972.

There is no requirement that interest be charged on overdue accounts although a monthly penalty of 2/3 of 1% is charged on overdue excise taxes.

The Department of National Revenue, Customs and Excise, has been trying for several years to extend the system of control accounts to include all receivables. However, this has not yet been fully accomplished.

During the year accounts amounting to $704,000 were deleted under authority of:

	Number of accounts	Amount
Appropriation Act No. 4, 1971, *1970-71-72, c.58*—National Revenue Vote 1a ..	17	$ 258,000
Financial Administration Act—section 18	968	304,000
Bankruptcy Act, *R.S., c. B-3*— section 148	62	142,000
	1,047	$ 704,000

TAXATION. The following is a summary of the accounts receivable at March 31, 1972, with comparable amounts at the close of the previous year:

	March 31, 1972	March 31, 1971
Income tax—		
Individuals	$ 282,184,000	$ 242,416,000
Corporations	154,739,000	124,573,000
Tax deductions	27,772,000	23,145,000
Non-residents	6,428,000	4,698,000
Deferred tax	3,757,000	4,072,000
	474,880,000	*398,904,000*
Estate tax and succession duty	31,369,000	26,581,000
Sundry	12,000	17,000
	$ 506,261,000	$ 425,502,000

The Department of National Revenue, Taxation has stated that the increase in accounts receivable was due to a noticeable increase in the amount of the average assessment, liberalization of departmental policy concerning voluntary arrangements and the acceptance of security in lieu of payments from taxpayers who appeal their assessments.

Of the total of $506 million receivable at March 31, 1972, $187 million (36.9%) represented 309,021 accounts which were undergoing the normal collection process. The remaining $319 million had not been collected for the following reasons:

	Number of accounts	Amount
Current assessments	161,649	$ 89,923,000
Uncollectable	8,819	20,516,000
Bankrupts	6,311	24,210,000
Under appeal	2,949	180,865,000
Deferred tax	2,580	3,757,000
	182,308	$ 319,271,000

During the year accounts amounting to $14,220,000 were deleted under authority of:

	Number of accounts	Amount
Appropriation Act No. 4, 1971, *1970-71-72, c.58*, and Appropriation Act No. 1, 1972, *1972, c.1*— National Revenue Votes 5a and 5b	385	$ 8,643,000
Financial Administration Act—section 18	6,179	4,061,000
Bankruptcy Act—section 148	1,801	1,516,000
	8,365	$ 14,220,000

259. *Accounts receivable—Department of External Affairs.* The accounts receivable of this Department include an amount of $1,827,000 owing to Canada from the fund known as the "Common Pool" established by the Geneva Conference on the problem of restoring peace in Indo-China. An additional amount of $1,381,000 is recoverable on behalf of the Department of National Defence. This total of $3,208,000, an increase of $94,000 over the previous year, represents certain costs incurred by Canada as far back as 1960-61 in serving on the International Commissions for Supervision and Control in Cambodia, Laos and Viet-Nam. No payment has been received from the "Common Pool" since February 1963 but Canada's assessments towards financing the Laos International Commission since 1962-63, amounting to $243,000 ($3,000 in 1971-72), have been applied against the indebtedness.

We understand that the failure of The People's Republic of China to continue its contributions has resulted in the "Common Pool" being unable to pay all of the costs for which it is responsible.

As has been pointed out in previous Reports (paragraph 244 in 1971), in the absence of any reimbursement from the "Common Pool" in recent years, new financing arrangements should be sought.

In its Sixth Report 1970-71, presented to the House on June 30, 1971, the Public Accounts Committee recommended "that the Department of External Affairs consider the advisability of taking diplomatic initiatives to resolve the situation". (See Appendix 1, item 36.)

260. *Accounts receivable—Department of Finance—Defaulted student loans.* The Canada Student Loans Act, *R.S., c. S-17,* was enacted in 1964 to facilitate loans to students not exceeding $1,000 for any one academic year or $500 for any one semester up to a maximum of $5,000 over the period of the student's full-time studies. Department of Finance Vote 1, Appropriation Act No. 3, 1972, *1972, c.15,* assented to on June 30, 1972, amended the Act to permit loans to be made not exceeding $1,400 for any one academic year or $700 for one semester, up to a maximum of $9,800 over the period of the student's full-time studies. The loan is interest-free to the student during the period of his full-time studies and for six months thereafter. Under the program, the appropriate provincial authority issues a certificate of eligibility to a qualifying student for an academic year. The certificate provides the chartered banks or other lending institutions with the authority to make the loan. Under section 12 of the Act the Province of Quebec operates its own program, receiving lump-sum payments from Canada to cover its costs.

Canada, in addition to acting as guarantor for the loan, pays the interest during the student's interest-free period, after which the student becomes liable for interest and repayment of the principal. In cases of default by the student, or death, Canada reimburses the lending institution the amount of the loan together with interest.

At June 30, 1972, loans, in all Provinces except Quebec, totalling $466 million had been made to students since the inception of the program in 1964. Of the $254,795,000 that has become payable, $114,784,000 has been repaid, $124,342,000 is being repaid on a current basis, and $15,669,000 has been paid by the Crown of which $864,000 due from students who died has been cancelled in accordance with the Act and $14,805,000 is in default by 13,475 students.

Since 1969 the Guaranteed Loans Administration Division of the Department of Finance which is responsible for the overall co-ordination and implementation of the program has employed an international collection agency to assist in the collection of the defaulted loans.

In 1971-72, 3,400 defaulted loans totalling $4,424,000 were referred to the collection agency bringing the total loans referred to 7,750 aggregating $9,207,000. Collections by the agency to June 30, 1972, amounted to $1,495,000 for which it received fees of $307,000.

During the year the loan accounts receivable records were transferred to a computer and our test examination revealed the following significant weaknesses:

1. Defaulted loans taken over from the lending institutions are not recorded as receivables from the students until a post-audit of the institutions' claims has been carried out. At June 30, 1972, a five-month post-audit backlog of 4,000 claims, which we have estimated at from $3 to $4 million, had not been recorded as receivable.

2. Interest owed by students which Canada has paid to the lending institutions is not recorded as receivable.

3. There is no control account against which the total of a listing of the loans can be verified.

4. The computer system does not provide adequate periodic statements or reports of transactions in the accounts.

The present system is most unsatisfactory and immediate corrective action is required.

261. *Accounts receivable—Department of Industry, Trade and Commerce.* The accounts receivable of this Department are recorded in the Public Accounts in the amount of $66,000 at March 31, 1972. A further amount of $926,000, disclosed by a footnote to the Comparative Statement of Accounts Receivable, is recoverable over a number of years in respect of assistance granted to three contractors under the Defence Industry Productivity Program.

Not included in the Statement is an additional amount of $493,000 owing by another contractor. Five other amounts totalling $263,000 are subject to recovery under the contingent repayment provisions of other assistance agreements under the Program but the Department had not requested payment of these nor had it recorded the amounts in its accounts. (See paragraphs 100, 101 and 106 of this Report.)

262. *Accounts receivable—Department of Manpower and Immigration.* In previous Reports (paragraph 246 in 1971) we have stated that control accounts had not been established for miscellaneous accounts receivable, that minor discrepancies existed between three of eight account trial balances and the respective control accounts, and that the total of $53,000 of accounts receivable categorized by the Department as uncollectable did not include many accounts that should have been similarly classified.

At March 31, 1972, control accounts were in effect for all accounts receivable totalling $1,342,000, with the exception of $17,000 of miscellaneous accounts. However, minor discrepancies between two of eight trial balances and the respective control accounts were still being investigated by the Department. The Department categorized accounts totalling $995,000 at March 31, 1972, as uncollectable, including $969,000 which had been outstanding at the end of the previous year.

The Department has made progress in the establishment of adequate records and control of accounts receivable. However, collection action remains weak in that there was no systematic follow-up on overdue accounts, despite a recommendation from the Public Accounts Committee in June 1972 that the Department make a greater effort. Subsequent to the close of the year new follow-up procedures were initiated for overpayments relating to the Canada Manpower Training Program, which comprise about half of the total accounts receivable.

263. *Accounts receivable—Department of National Defence.* This Department reported accounts receivable of $14,098,000 at March 31, 1972. In our review of supporting accounts receivable records maintained at Headquarters, approximately

90% of the total, we learned that the Department discontinued the use of control accounts in February 1972. Such accounts are essential to provide effective internal control over accounts receivable and Treasury Board policy requires that they be maintained. Our review of the records disclosed that accounts totalling $742,000 had not been included in the totals reported by the Department. These together with other errors indicate that the receivables have been understated by $628,000.

The accounts receivable include:

United Nations—Special funds	$ 6,726,000
Indo-China Truce Commission	1,381,000
Assistance to provinces	845,000
Federal Republic of Germany	680,000
Canadian Corporation for the 1967 World Exhibition	100,000

The balance of $6,726,000 due from special funds of the United Nations results from costs incurred by the Department as a result of participation in United Nations peacekeeping operations. The unsettled accounts are in respect of operations in the Congo until 1964, $804,000; the Middle East until 1967, $4,702,000; and in Cyprus $1,220,000. Difficulties encountered by the United Nations in the collection of contributions from member states have prevented settlement of these accounts.

The amount of $1,381,000 owing to Canada with respect to costs incurred by the Department in serving on the International Commissions for Supervision and Control in Cambodia, Laos and Viet-Nam is referred to in paragraph 259 of this Report.

The balance of $845,000 reported as due in respect of assistance to provinces comprises amounts receivable from five provinces for assistance provided in civil emergencies between 1958 and 1972. (See paragraph 135 of this Report.)

The amount of $680,000 owing by the Federal Republic of Germany since 1961 was noted in our 1971 Report (paragraph 247) and reference made to the lack of follow-up action by the Department in recent years. In May 1972 the Department received payment of this account.

The account owing by the Canadian Corporation for the 1967 World Exhibition covering shortages in, and damages to, bedding, and transportation and administration costs was also referred to in paragraph 247 of our 1971 Report. Following the dissolution of the Corporation on November 27, 1969, its assets and liabilities were transferred to the Minister of Industry, Trade and Commerce for collection and settlement in accordance with the Expo Winding-up Act, *1969-70, c.1*. As noted last year settlement of the amount owing to the Department of National Defence will not be possible until the Province of Quebec pays an amount of $192,000 representing the unpaid portion of the Province's share of the Corporation's deficit.

As stated in our Report last year it has not been the practice to report debit balances in pay accounts of serving members of the Canadian Forces. When the Central Computational Pay System is fully implemented (see paragraph 128 of this

Report), the totals of overpayments of pay and allowances and other debit balances should be available for inclusion in the Comparative Statement of Accounts Receivable.

264. *Accounts receivable—Department of National Health and Welfare.* The accounts receivable of this Department totalled $7,525,000 at March 31, 1972. These include accounts totalling $3,569,000 relating to the Department's hospitals and medical services.

In previous Reports (paragraph 248 in 1971) we have noted that considerable improvement was required in both the control and collection of the accounts receivable of some of the Department's hospitals. Examinations during the year at three other hospitals disclosed similar situations. Postings to the control account at one hospital were seven months in arrears while at another the control account had not been balanced with the individual accounts receivable for more than a year. At one hospital billings for services to patients were delayed for a period of fourteen months and at another for a period of eight months. In one case virtually no action had been taken to collect accounts receivable arising from commissary sales. At March 31, 1972 outstanding accounts receivable at the three hospitals aggregated $536,000. Twelve hospitals were in operation at the year-end, two having been closed during the year.

The medical services which the Department provides are administered through nine regional offices located across Canada. Our examinations included the records of four regional offices. Control accounts were not maintained by any of the four offices and two of them did not follow up overdue accounts on a systematic basis. At March 31, 1972 outstanding receivables at the four offices totalled $50,000.

265. *Accounts receivable—Department of Public Works.* The accounts receivable of this Department at March 31, 1972 are recorded as $5,129,000. However, this amount does not include $5,242,000 due from a company under an agreement involving the construction of an oil terminal wharf at Point Tupper, N.S. The Department's expenditure on the wharf, $4,700,000, plus interest accrued during the period of construction, $542,000, is receivable from the company over a period of 25 years with interest at 8.3%.

266. *Accounts receivable—Department of Transport.* The accounts receivable reported by this Department amounted to $5,525,000 at March 31, 1972, compared with $5,980,000 at March 31, 1971.

In our 1971 Report (paragraph 249) we noted that some improvements in the handling of accounts receivable had been made. However, our review of the accounts outstanding as at March 31, 1972, disclosed lengthy delays in processing accounts, an absence of controlling accounts and inadequate collection efforts. (See paragraphs 216 and 217 of this Report.)

267. *Cash on deposit.* Included in the item "Cash" is an amount of $1,567.9 million on deposit in bank accounts. Of this amount, $1,529.9 million was on deposit in the chartered banks in Canada, $20.1 million in the Bank of Canada and $17.9 million in banks in London, New York, Paris, Brussels and Bonn.

The balances on deposit in bank accounts abroad are working balances against which cheques are drawn and which do not earn interest. The Bank of Canada, in accordance with the provisions of section 19(e) of the Bank of Canada Act, *R.S., c. B-2,* does not pay interest on deposits. However, profits of the Bank of Canada are paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

Balances on deposit in the chartered banks in Canada earn interest only on the amounts by which the aggregate of the lowest daily balance for each bank in each week exceeds $100 million, calculated at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%. (See paragraph 87 of this Report.)

Additional interest-free balances, totalling $30 million at the year-end, are maintained in certain chartered banks by the Unemployment Insurance Commission (see paragraph 88 of this Report).

268. *Valuation of United States dollar assets and liabilities.* On May 31, 1970, the Minister of Finance announced that Canada would no longer maintain the value of the Canadian dollar within the previously agreed margins and subsequently the Canadian dollar appreciated in value. Thus United States dollar assets held by Canada and debts payable by Canada in United States dollars all depreciated in value in terms of the Canadian dollar. The rate of exchange at March 31, 1972, was $1 US = $0.9975 Canadian but, except in the case of bank balances of $16.2 million, no adjustment was made in the valuation of these assets and liabilities with the result that they were overvalued at that date as follows:

	Recorded value	Value at March 31, 1972 exchange rate	Over-valuation
Assets—			
Securities held for securities investment account	$ 13,036,000	$ 12,085,000	$ 951,000
Subscriptions to capital of, and working capital advances and loans to, international organizations	319,358,000	301,674,000	17,684,000
	$ 332,394,000	$ 313,759,000	$ 18,635,000
Liabilities—			
Loans payable in foreign currencies, including accrued interest	$ 341,378,000	$ 314,985,000	$ 26,393,000

269. *Departmental working capital advances.* This item, amounting to $171,966,000 at March 31, 1972, comprises a number of revolving funds and working capital advances established by Appropriation Acts and other statutes.

In the following instances balances at March 31, 1972, include: operating deficits, inventory shortages, and undistributed expense to be recovered from departmental appropriations, which are not assets; and long-term stockpiles of materials which should be shown as a separate category in the Statement of Assets and Liabilities and should not be financed out of working capital advances:

OPERATING DEFICITS	
Department of Supply and Services—	
Computer Services Bureau Revolving Fund	$ 321,000
Public Service Commission—	
Bureau of Staff Development and Training Revolving Fund	320,000
Department of the Environment—	
Fisheries Prices Support Account	249,000
Department of Communications—	
Government Telephone Account	74,000
National Film Board—	
Canadian Government Photo Centre Revolving Fund	39,000
	1,003,000
INVENTORY SHORTAGES	
Department of Indian Affairs and Northern Development—	
National Parks Stores Account	28,000
Post Office Revolving Fund	5,000
	33,000
UNDISTRIBUTED EXPENSE	
(amounts due from departments)	
Department of Supply and Services—	
Canadian Government Printing Bureau Revolving Fund	3,784,000
Canadian Government Supply Service Revolving Fund	2,284,000
Computer Services Bureau Revolving Fund	391,000
Department of Communications—	
Government Telephone Account	417,000
National Film Board—	
Operating Account	544,000
Canadian Government Photo Centre Revolving Fund	86,000
Department of Public Works—	
Working Capital Advance	389,000
Information Canada—	
Expositions Revolving Fund	204,000
Department of External Affairs—	
Advances to posts abroad	90,000
Public Service Commission—	
Bureau of Staff Development and Training Revolving Fund	35,000
Public Archives—	
Central Microfilm Unit Revolving Fund	13,000
Department of Industry, Trade and Commerce—	
Statistics Canada Revolving Fund	8,000
	8,245,000
LONG-TERM STOCKPILES OF MATERIALS	
Department of Energy, Mines and Resources—	
Uranium concentrates	101,183,000
Department of Supply and Services—	
Defence Production Revolving Fund	889,000
	102,072,000
	$ 111,353,000

Expenditures of $11,396,000 on a stockpile of uranium concentrates under the control of Uranium Canada, Limited have been erroneously recorded as loans to that Crown Corporation. (See paragraph 281 of this Report.)

270. *Departmental working capital advances—Department of Agriculture—Agricultural Products Board Account.* The following inventories were held by the Agricultural Products Board at March 31, 1972:

Turkeys	$ 1,275,000
Egg powder	345,000
	$ 1,620,000

The turkeys had been purchased on the market because of a loss of export trade caused by the imposition by the United States Government of a 10% surcharge on imports. A note to the Board's Balance Sheet at that date disclosed that the Board expected to suffer a loss of an estimated $300,000 on disposal of this inventory. Since the year-end about 75% of the inventory of turkeys has been sold, at a loss of $210,000, to the Canadian International Development Agency for disposal under the world food program.

The inventory of egg powder has been sold at book value to the Canadian International Development Agency for disposal under the world food program.

271. *Departmental working capital advances—Department of Communications—Government telecommunications agency revolving fund.* The proper name of this account is the Government Telephone Account which was authorized by Finance Vote L20, Appropriation Act No. 5, 1963, *1963, c.42,* for the purpose of financing the government telephone service. Expenses are billed to user departments to cover costs of administration, local shared common services and inter-city services for departments and agencies using the consolidated systems serving certain areas. The amount outstanding may not exceed $1 million. The balance in the Account at the year-end was $520,700. This amount is $66,800 in excess of the balance of $453,900, which appears in the Balance Sheet of the Fund shown on page 2.8 of Volume II of the Public Accounts, because the accounts of the Fund were not held open as were the central accounts to record 1971-72 receipts and payments in April. These receipts totalled $1,343,500 and the payments totalled $1,402,600. The remaining amount of $7,700 is an error in the central accounts which is offset by a similar error in Communications—Suspense Account.

272. *Departmental working capital advances—Department of Manpower and Immigration—Posts abroad.* The balance of $143,000 in the Account at March 31, 1972, comprised the unpaid portion of loans to employees posted abroad. The current accounting policy of crediting repayments to principal until the loans are repaid,

and thereafter to interest, has the effect of understating by an indeterminate amount the total of the loans outstanding.

273. *Foreign exchange reserve accounts—Exchange Fund Account—Deficit.* Advances to the Exchange Fund Account at March 31, 1972, amounted to $5,516,-279,000 comprising cash advances, $5,146,000,000, and special drawing rights, $370,-279,000. However, as the market value of the net investments from cash advances held by the Account at that date was only $4,928,540,000, there was a deficit of $217,460,000 which in our opinion should be written off with parliamentary approval as a cost of exchange management. (See paragraphs 89 and 400 of this Report.)

274. *Foreign exchange reserve accounts—Exchange Fund Account—Special Drawing Rights.* Special drawing rights are issued to countries participating in the Special Drawing Account established under the Articles of Agreement of the International Monetary Fund, as a supplement to existing foreign exchange reserves. A special drawing right (SDR) is equivalent to .888671 gram of fine gold and at March 31, 1972, the value of an SDR in terms of the Canadian dollar was $1.083.

Canada's allotment of special drawing rights is recorded both as an asset, in the form of an advance to the Exchange Fund Account, and as a liability of the same amount on Canada's Statement of Assets and Liabilities. At March 31, 1972, this recorded amount was $370,279,000. However, Canada's allotment at that date was SDR 358,620,000 which at the SDR valuation of $1.083 amounted to $388,385,000. Therefore, the value of Canada's allotment of special drawing rights was understated both as an asset and as a liability by $18,106,000 at March 31, 1972.

275. *Foreign exchange reserve accounts—Canada's subscription to capital of the International Monetary Fund.* The quotas of member countries in the International Monetary Fund, formerly expressed by the Fund in United States dollars, have been expressed in special drawing rights since March 20, 1972.

In order to maintain Canada's quota at the equivalent of SDR 1,100,000,000 which is $1,191,300,000 Canadian, a further payment of $55,357,000 was required. This amount was not settled until after the year-end and therefore Canada's quota at March 31, 1972, was held by the International Monetary Fund as follows:

Gold and convertible currencies	$ 373,831,000
Canadian currency	12,112,000
Non-interest-bearing notes	750,000,000
Payable by Canada to International Monetary Fund	55,357,000
	$ 1,191,300,000

Canada's investment in the Fund is recorded under "Foreign Exchange Reserve Accounts" at an amount of $1,141,327,000 at March 31, 1972, which together with the $55,357,000 owed to the International Monetary Fund at the year-end, totals

$1,196,684,000 or $5,384,000 in excess of the value of the quota. This difference, which is the result of a decrease in the market value of the Canadian dollar in terms of SDR, should be written off as an expense.

276. *Social security accounts—Unemployment Insurance Account—Advances.* Section 137 of the Unemployment Insurance Act, 1971, *1970-71-72, c.48*, provides that where the amount standing at the credit of the Unemployment Insurance Account in the Consolidated Revenue Fund is not sufficient for the payment of benefits and costs of administration under the Act, the Minister of Finance, when requested by the Commission, may authorize the advance to the Unemployment Insurance Account from the Consolidated Revenue Fund of an amount sufficient to meet the payments required to be made in the operation of the Act.

Pursuant to this section $183,630,000 was advanced and recorded as an advance to the Commission at March 31, 1972. However, the crediting of this amount to the Account resulted in a credit balance of $36,897,000 which is shown as a liability on the Statement of Assets and Liabilities of Canada. The net of these amounts, $146,733,000, represents the deficit in the Account and in our opinion is the amount that should have been advanced under section 137 of the Act.

The amount of $183,630,000 recorded as an advance to the Commission at March 31, 1972, differs from the amount of $161,782,000 shown in the financial statements of the Unemployment Insurance Commission at that date because of:

The net cost of benefits to fishermen in the period June 27, 1971, to March 31, 1972, recorded by the Receiver General as advances to the Commission whereas they are actually expenditures under section 146 of the Act	$ 14,977,000
An adjustment in April 1972 of a March advance to the Commission recorded by the Receiver General as a 1971-72 transaction and by the Commission as a 1972-73 transaction	6,871,000
	$ 21,848,000

277. *Advances, loans and investments—Domestic—Loans to, and investments in, Crown corporations—Atomic Energy of Canada Limited.* Included in the loans to, and investments in, Atomic Energy of Canada Limited totalling $617 million are the following loans, exclusive of accrued interest, relating to construction of nuclear power stations at:

Pickering, Ont.	$ 106,452,000
Gentilly, Que.	81,700,000
Douglas Point, Ont.	69,945,000

The Company's portion of the cost of the Pickering nuclear power station is expected to be recovered from the Hydro-Electric Power Commission of Ontario but this is dependent on the success achieved in the operation of the station.

After the Gentilly nuclear power station has been established to be a safe and dependable source of power, it is to be sold to Quebec Hydro-Electric Commission at a price calculated to make the estimated future cost of energy produced equal to that from a fossil-fired conventional thermal generating station. Whether the sale price will be sufficient to permit the Company to repay the loans remains to be determined.

Originally the Douglas Point nuclear power station, which had been constructed earlier, was to be sold to the Hydro-Electric Power Commission of Ontario under an arrangement similar to that for the Gentilly station. However, the role of the Douglas Point station in the next few years is to be altered in that, in addition to producing electricity for the Hydro-Electric Power Commission of Ontario, it is to produce steam for the Bruce heavy water plant. Thus, although the contract with the Commission for the sale of the plant is still in effect, it is not known when, if ever, the sale is to take place or when the loans will be repaid. The station earned revenue of $5.3 million in 1971-72 from the sale of electricity but incurred an operating loss of $2.5 million exclusive of depreciation. If anticipated reductions in future operating costs and increased revenue from the sale of steam are achieved, any excess of revenue over operating costs is to be applied as repayment of the loans.

278. *Advances, loans and investments—Domestic—Loans to, and investments in, Crown corporations—Canadian Commercial Corporation.* In carrying out its function of making purchases in Canada on behalf of customers in the United States, the Canadian Commercial Corporation employs United States dollar working capital which amounted to US$12,767,000 at March 31, 1971, and US$10,767,000 at March 31, 1972. The decline in the value of the United States dollar in 1970-71 resulted in an exchange loss of $830,000 on this working capital. After applying previous exchange profits of $52,000 a net loss of $778,000 remained at March 31, 1971. A further drop in the value of the United States dollar in 1971-72 resulted in a further exchange loss of $132,000, bringing the total loss to $910,000. That portion of the loss, $146,000, applicable to US$2,000,000 disposed of during the year was charged to Supply and Services Vote 20b through the Corporation's Reserve for Contingencies (see paragraph 211 of this Report), leaving an unabsorbed loss of $764,000 at the year-end.

The Crown's working capital advances of $15,500,000 to the Corporation are impaired by this unabsorbed loss of $764,000 and, as the Corporation's operating costs are provided for by parliamentary appropriations, we are of the opinion that an appropriation should be sought to cover it.

279. *Advances, loans and investments—Domestic—Loans to, and investments in, Crown corporations—National Harbours Board.* The loans to the National Harbours Board which are included in the Statement of Assets and Liabilities of Canada amounted to $273,502,000 at March 31, 1972, and are identified with individual harbours and bridges as follows:

Montreal—	
Harbour	$ 142,465,000
Champlain Bridge	52,177,000
Jacques Cartier Bridge	7,576,000
	202,218,000
Vancouver—	
Harbour	45,968,000
Burrard Inlet Crossing engineering studies	4,273,000
	50,241,000
Saint John Harbour Bridge Authority	15,156,000
Halifax—Pier C	3,546,000
Belledune	2,341,000
	$ 273,502,000

This total reflects a net increase of $3,263,000 during the year comprising additional loans of $3,378,000 and repayments of $115,000 as follows:

Additional loans—	
Vancouver:	
Harbour	$ 2,000,000
Burrard Inlet Crossing engineering studies	278,000
Halifax—Pier C	1,100,000
	3,378,000
Repayments—	
Vancouver—Harbour	11,000
Saint John Harbour Bridge Authority	40,000
Halifax—Pier C	54,000
Belledune	10,000
	115,000
	$ 3,263,000

In addition to the loans included in the Statement of Assets and Liabilities, there are loans totalling $139,901,000 which have been written off to net debt. These loans were made with respect to the following:

Quebec	$ 52,075,000
Saint John	34,770,000
Halifax	29,891,000
Churchill	8,857,000
Montreal—Jacques Cartier Bridge	6,490,000
Trois-Rivières	3,988,000
Chicoutimi	3,830,000
	$ 139,901,000

In addition to the principal amounts of the loans which total $413,403,000, interest unpaid to December 31, 1971, amounted to $165,442,000.

Interest is payable semi-annually at rates varying from 2 3/4% to 8 1/2% but, although there are certificates of indebtedness, no dates for repayment of principal

are specified except in the case of two loans made in 1970 and three loans made in 1971. It appears that repayment of the principal is dependent on the individual harbours making profits after payment of interest.

During the year interest totalling $17,149,000 became due, and interest payments of $2,751,000 were made by the Board with respect to the Belledune, Trois-Rivières, Halifax and Vancouver Harbours, the Champlain Bridge and the Saint John Harbour Bridge Authority.

In previous Reports we have pointed out that there is little prospect of the Board being able to meet its principal and interest obligations and have recommended that the financial structure of the Board be reconstituted. In February 1967 the Public Accounts Committee, in its Twelfth Report 1966-67, commented as follows (see Appendix 1, item 24):

> The Committee is concerned that there appears to be little prospect of the Board being in a position to meet its principal and interest obligations and recommends that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter will be dealt with by the Department of Finance and the Board within the next twelve months.

The financial structure of the Board was not reconstituted as the proposals made by the Department of Finance were not acceptable to the Board. The matter has since been left in abeyance. On May 13, 1971, the Public Accounts Committee discussed the matter with officers of the Board and the Canadian Marine Transportation Administration but no further recommendation was made by the Committee.

280. *Advances, loans and investments—Domestic—Loans to, and investments in, Crown corporations—The St. Lawrence Seaway Authority.* Outstanding loans to The St. Lawrence Seaway Authority at March 31, 1972, totalled $588,150,000 (including a temporary interest-free loan of $2,500,000 to finance a portion of the Welland Canal deficit) and unpaid interest, $91,579,000.

Included in these amounts are loans in respect of construction of the Montreal—Lake Ontario Section which amounted to $338,900,000 and unpaid interest of $73,147,000. Section 17 of the St. Lawrence Seaway Authority Act, *R.S., c. S-1*, requires that the tolls provide sufficient revenue to defray the cost of operations including interest and repayment of the capital indebtedness over a period not exceeding fifty years. The original terms of these loans called for the payment of interest only, in the first three full years of operation and thereafter payment of annual amounts sufficient to amortize all loans and interest thereon over a period of forty-seven years ending December 31, 2009. These terms have subsequently been amended and now provide that the loans, together with interest, are to be repaid in such amounts each year as the cumulative net profits of the Section, before amortization of the loan principal, will permit. Unpaid interest bears interest until paid and the statutory requirement that the principal and interest are to be fully paid by December 31, 2009, remains.

Officers of the Authority have calculated that the annual toll revenue required by the Authority, if it is to meet the statutory requirement that its indebtedness be amortized over a period not exceeding fifty years, would be $35 million based on 1971 costs. The actual toll revenue in 1971 was $20 million. Since the opening of the Seaway in 1959 no repayment of principal has been made, and interest totalling $73 million remains unpaid.

Loans made for capital improvements to the Welland Canal aggregated $246,-750,000 of which $72,500,000 is interest-free. The remainder, $174,250,000, which has been loaned since September 22, 1966, bears interest. Interest is accrued in the accounts but does not become payable until December 31 of the year in which the Minister of Transport determines that each modernization project is completed, at which time the terms of principal repayment for the loans are to be determined by the Governor in Council. Accrued interest to March 31, 1972, amounted to $18,432,-000. In recent years the Welland Canal has had an annual operating deficit exceeding $7 million before providing for interest or payment of the loans.

It is extremely unlikely that the Authority will ever be able to repay its capital indebtedness.

281. *Advances, loans and investments—Domestic—Loans to, and investments in, Crown corporations—Uranium Canada, Limited.* Energy, Mines and Resources Vote L11c, Appropriation Act No. 1, 1971, *1970-71-72, c.25,* provided $29.5 million for the acquisition in the fiscal years 1970-71 to 1974-75 of uranium concentrates under contracts with Denison Mines Limited. Uranium Canada, Limited, a Crown corporation, was incorporated in June 1971 pursuant to section 10 of the Atomic Energy Control Act, *R.S., c. A-19,* initially to act on behalf of Canada with respect to the acquisition and future sales of a stockpile of uranium concentrates to be established under a joint venture agreement with Denison Mines Limited. The Crown is to hold a 76% interest in the stockpile. Disbursements have been recorded erroneously as loans to Uranium Canada, Limited.

To March 31, 1972, 2,484,000 lbs. of uranium concentrates had been stockpiled at a cost to the Crown of $11,396,000 for its 76% interest in the stockpile.

282. *Advances, loans and investments—Domestic—Loans to provincial governments—Loans to assist in the creation of employment.* Finance Vote L13c, Appropriation Act No. 1, 1971, *1970-71-72, c.25,* provided $160 million for loans to provinces, provincial agencies and municipalities in 1970-71 and 1971-72 for the purpose of assisting in the creation of employment in areas where the number of unemployed workers was in excess of 4% of the labour force in the six-month period ending December 31, 1970. Loans amounting to $141 million have been made to nine provinces of which $50 million with respect to projects in progress is secured by interim demand notes bearing interest at rates from 5.38% to 6.91%. The remaining loans amounting to $91 million are with respect to completed projects. These are secured by debentures which bear interest at from 6.12% to 7.54%, and are repayable

over periods of from 8 to 20 years. The interest rates for both notes and debentures are those which were applicable to the Canada Pension Plan Investment Fund at the time the loan was made.

Finance Vote L19a, Appropriation Act No. 4, 1971, *1970-71-72, c.58*, provided $160.5 million for the Federal-Provincial Employment Loans Program 1971 under which loans may be made for capital development projects in 1971-72 and 1972-73 for the purpose of assisting in the creation of employment in the provinces. At March 31, 1972, loans of $8 million had been made to New Brunswick and $2 million to British Columbia. The appropriation provides for forgiveness of that portion of the principal amount of the loans that is equal to 75% of the normal direct on-site payroll costs of capital development projects incurred and paid before June 1, 1972. These loans are secured by interim demand notes pending completion of the projects at which time debentures will be obtained for the portions of the notes which are not forgiven. These portions bear interest at from 6.2% to 6.51%, the rates applicable to loans made by the Canada Pension Plan Investment Fund. No provision has been made in the accounts for the portion of the loans which it is estimated will be forgiven. Such a provision would have involved a charge to expenditure in the year.

283. *Advances, loans and investments—Domestic—Loans to provincial governments—Agricultural service centres.* Regional Economic Expansion Vote L25, Appropriation Act No. 3, 1971, *1970-71-72, c.46*, provided funds for loans to provinces under agreements made with the approval of the Governor in Council for the development of community and industrial infrastructure.

Pursuant to section 5 of the Department of Regional Economic Expansion Act, *R.S., c.R-4*, and under the authority of Order in Council P.C. 1971-4/838 dated May 4, 1971, a cost-sharing agreement was entered into with the Province of Manitoba under which the Prairie Farm Rehabilitation Administration is responsible for the construction of additions and improvements to the City of Brandon's water, sewer and storm drainage systems at a cost not to exceed $2.4 million.

Canada's financial assistance is by way of a contribution of 50% of the cost from Regional Economic Expansion Vote 5—Capital and a loan of 50% from Vote L25. The balance of $218,000 in this account at March 31, 1972, represents the loan portion of the moneys advanced. Loans are repayable over 20 years with interest at rates applicable to loans to Crown corporations.

284. *Advances, loans and investments—Domestic—Loans to provincial governments—Advances and loans pursuant to special areas agreements.* Regional Economic Expansion Vote L25, Appropriation Act No. 3, 1971, *1970-71-72, c.46*, provided funds for loans to provinces under agreements made with the approval of the Governor in Council for the development of community and industrial infrastructure.

Pursuant to section 8 of the Department of Regional Economic Expansion Act, *R.S., c. R-4*, and with the approval of the Governor in Council, agreements have

been entered into with the Provinces of Newfoundland, Nova Scotia, New Brunswick, Quebec, Manitoba, Saskatchewan and Alberta, in respect of designated special areas covering projects for infrastructure of various types which are financed by Canada through contributions, loans or a combination of both.

Advances made under these agreements represent payments to provinces on uncompleted projects. When the project is completed interest accrued is capitalized and converted, along with the funds advanced, into a loan repayable within thirty years.

At March 31, 1972, advances totalling $67,247,000 were outstanding as follows:

Quebec	$ 32,144,000
New Brunswick	12,102,000
Newfoundland	9,631,000
Nova Scotia	8,691,000
Manitoba	1,919,000
Alberta	1,643,000
Saskatchewan	1,117,000
	$ 67,247,000

During the year projects were completed in the Provinces of Quebec, New Brunswick and Newfoundland, and the associated advances were converted into loans totalling $1,585,000 at March 31, 1972, as follows:

Quebec	$ 1,115,000
New Brunswick	319,000
Newfoundland	151,000
	$ 1,585,000

285. *Advances, loans and investments—Domestic—Miscellaneous—Investment in shares of Telesat Canada.* Telesat Canada was incorporated by the Telesat Canada Act, *R.S., c. T-4,* to establish satellite telecommunication systems providing, on a commercial basis, telecommunication services within Canada. Section 10(2) of the Act provides that the shares of the Company shall be issued among Canada, approved telecommunications common carriers, and persons who fulfil the statutory conditions. Section 40 of the Act limits Canada's investment to $30,000,000.

At March 31, 1972, the Company had issued 6,000,001 common shares without nominal or par value for a consideration of $10 per share. Canada had acquired 3,000,000 of these for an amount of $30,000,000.

The Company's fiscal year ends on December 31 and copies of its financial statements and auditor's report are required by section 37 of the Act to be laid before Parliament by the Minister of Communications. A firm of chartered accountants appointed by the shareholders is the auditor of the Company.

286. *Advances, loans and investments—Domestic—Miscellaneous—Dominion Coal Company Limited.* In previous Reports (paragraph 265 in 1971) we have drawn attention to arrears of principal and interest on loans made under the provisions of the Coal Production Assistance Act, *1949, c.29*, administered by the Department of Energy, Mines and Resources.

Particular reference was made to loans totalling $7,261,000 made to the Dominion Coal Company Limited in the period November 1950 to July 1963. These loans have been in default since December 31, 1964 and the principal still owing amounts to $4,522,000. Interest in default at March 31, 1972, amounted to $833,000.

Certain of the Company's operations and properties were taken over by the Cape Breton Development Corporation, a Crown corporation, in 1968, for which a settlement of $14,654,000 was agreed to late in 1972. (See paragraph 77 of this Report.) We understand that the final payment will take into consideration loan principal and interest in default.

287. *Advances, loans and investments—Domestic—Miscellaneous—Hydro Quebec Research Institute.* Under the terms of an agreement between Canada, Quebec and the Quebec Hydro-Electric Commission, Canada will lend to Hydro Quebec a maximum of $17,500,000 over the four years ending in 1973-74 to assist in the construction and operation of the Hydro Quebec Research Institute. The loans are to be repaid in 25 equal annual instalments comprising capital and interest, the first payment being due March 31, 1975, or one year following the date of the final loan, whichever comes first. During 1971-72 additional loans totalling $2,500,000 were made to Hydro Quebec at an interest rate of 7 1/2% under authority of Energy, Mines and Resources Vote L10, Appropriation Act No. 3, 1971, *1970-71-72, c.46*. A total of $13,400,000 had been loaned at March 31, 1972.

288. *Advances, loans and investments—Domestic—Miscellaneous—Emergency loans to fishermen.* As indicated in paragraph 268 of our 1971 Report, Fisheries and Forestry Vote L6a, Appropriation Act No. 4, 1970, *1970-71-72, c.4*, provided $1,834,-000 for:

> Loans to commercial fishermen and fish plant workers in accordance with agreements with the provinces, for the purpose of income maintenance during the 1970-71 fishing season because of closure of the fishery due to mercury pollution.

The arrangements were that the provinces would administer the program and Canada would pay one-half of the amount of the loans made and share equally the net amounts recovered. The agreement with the Province of Manitoba also provided for assignment to the Province of an eligible participant's right to sue the party allegedly responsible for the pollution, while Quebec and Saskatchewan agreed to ensure that legal steps would be taken against polluters when and if such action were feasible.

Last year we expressed the opinion that the amounts disbursed were not loans to fishermen but were instead payments to provinces of 50% of the provincial disbursements under an assistance program and as such, should have been charged to expenditure rather than being set up as current assets on the Statement of Assets and Liabilities. We also questioned whether Vote L6a provided authority for the payments in the circumstances.

There was no change in the situation during the year, with the exception that further outlays totalling $76,000 were made to the Province of Quebec. This brought the expenditure under the authority to $1,372,000, distributed as follows:

	Number of loans	Amount
Manitoba	1,038	$ 952,000
Quebec	376	218,000
Ontario	125	193,000
Saskatchewan	63	9,000
	1,602	$ 1,372,000

These "loans" do not meet the criteria of being readily realizable or revenue-producing which, according to the explanatory statement appearing in the introduction to the Public Accounts, are followed in the preparation of the Statement of Assets and Liabilities. (See paragraph 256 of this Report.)

289. *Advances, loans and investments—Domestic—Miscellaneous—Loans to ground-fish processors.* Fisheries and Forestry Vote L32b, Appropriation Act No. 1, 1969, *1968-69, c.23,* authorized loans in the current and subsequent fiscal years to assist processors of ground-fish in Canada, who are unable to obtain sufficient financing on reasonable terms from other sources, to maintain raw fish prices at the 1966-68 level. The loans are available in an amount not exceeding the total of deficiency payments received by the processor from the Fisheries Prices Support Board in 1968. No repayment of the principal amount of the loan is required for five years and payment of the interest may also be deferred for a like period. At the end of that time the loan becomes payable in accordance with terms agreed upon when it was made, within a maximum repayment period of ten years.

During the year principal payments of $258,000 were received, of which $174,000 represented full repayment of one loan. There were 40 loans totalling $3,317,000 outstanding at March 31, 1972.

290. *Advances, loans and investments—Domestic—Miscellaneous—Investment in shares of Canada Development Corporation.* The Canada Development Corporation was established by the Canada Development Corporation Act, *1970-71-72, c.49,* which came into force on November 18, 1971. The Act stipulates that the Corpora-

tion is not an agent of Her Majesty or a Crown corporation within the meaning of the Financial Administration Act. The objects of the Corporation are: to assist in the creation or development of businesses, resources, properties and industries of Canada; to expand, widen and develop opportunities for Canadians to participate in the economic development of Canada; to invest in the shares or securities of any corporation owning property or carrying on business related to the economic interests of Canada; and to invest in ventures or enterprises, including the acquisition of property, likely to benefit Canada; and shall be carried out in anticipation of profit and in the best interests of the shareholders as a whole.

The Corporation's authorized share capital consists of 200 million common shares without nominal or par value and preferred shares to a value of $1,000 million. The net asset value of the common shares is the value on the date of issue as determined in accordance with Schedule II of the Canada Development Corporation Act.

The following is a summary of Canada's acquisitions of shares of the Corporation:

Date	Number of common shares	Price per share	Investment
November 1971	2,500,000	$ 10.000	$ 25,000,000
June 1972	2,478,437	10.087	25,000,000
July	6,141,654	10.095	62,000,000
November	2,474,023	10.105	25,000,000
January 1973	4,916,421	10.170	50,000,000
	18,510,535		$ 187,000,000

On July 31, 1972, Canada sold Polymer Corporation Limited to the Corporation for an immediate base price of $62 million plus an additional payment, not exceeding $10 million, based on profit performance in 1973 and 1974 with respect to its rubber, latex and plastic operations, receiving 6,141,654 common shares of Canada Development Corporation in settlement of the $62 million base price. Any balance of the sale price will be settled by cash or the issuance of additional shares of the Corporation, at the option of the Minister of Finance.

291. *Advances, loans and investments—Domestic—Miscellaneous—Saint John Harbour Bridge Authority.* In July 1966, with the approval of the Governor in Council, Canada entered into an agreement with the Province of New Brunswick, the City of Saint John and the Saint John Harbour Bridge Authority for the financing, construction and operation of a toll bridge across the harbour at Saint John, N.B.

Subsequently, under authority of Vote L106b, Appropriation Act No. 7, 1967, *1967-68, c.8,* Canada advanced $15,250,000 to the National Harbours Board to enable

it to purchase debentures issued by the Authority to finance the cost of constructing the bridge. Additional loans of $3,800,000 were made direct to the Authority through the Municipal Development and Loan Board, of which $950,000 has been forgiven pursuant to the Municipal Development and Loan Act, *1963, c.13.* These loans bear interest at rates between 5 1/4% and 8 1/2% and are repayable over a period of 50 years.

It was anticipated that in the initial years the cost of operation would exceed the revenue from tolls and accordingly Vote L101e, Appropriation Act No. 4, 1966, *1966-67, c.6,* provided a total of $10 million for advances to the Authority in each fiscal year, based on the difference for the year between the operating and financing costs of the toll bridge and the actual revenue of the Authority, as determined pursuant to the agreement. These advances are repayable when the actual revenue of the Authority for a fiscal year exceeds the amount of the operating and financing costs for such year. At March 31, 1972, a total of $3,961,000 had been advanced to the Authority to cover the excess of operating and financing costs over revenue. Interest, at rates from 5 7/8% to 8 1/2%, is charged on portions of these advances.

Altogether Canada has advanced a total of $23,011,000 to the Authority of which $180,000 has been repaid, and $950,000 has been forgiven by the Municipal Development and Loan Board, leaving a total owing to Canada at March 31, 1972, of $21,881,000 plus deferred interest of $14,000. The loans making up this total have been recorded under three separate headings in the schedules to the Statement of Assets and Liabilities of Canada, as follows:

Advances, loans and investments—Domestic—		
Loans to, and investments in, Crown corporations:		
National Harbours Board		$ 15,156,000
Municipal Development and Loan Board— Advances		2,764,000
Miscellaneous:		
Department of Finance—		
Advances	3,961,000	
Deferred interest	14,000	
		3,975,000
		$ 21,895,000

The excess of the operating and financing costs of the Authority over its revenue is due solely to the requirement that there be annual payments of principal and interest on loans from Canada. These payments which totalled $4,732,000, comprising interest of $4,552,000 and principal of $180,000, were financed to the extent of $771,000 from Authority revenue. The balance of $3,961,000 was advanced by the Department of Finance to enable the Authority to meet interest and principal repayments on the two other government loans. These two loans thus appear to be revenue-producing assets which are being reduced by regular payments whereas in fact they are not, and a parliamentary appropriation of funds is necessary to permit the recording of interest and principal payments.

292. *Advances, loans and investments—Domestic—Miscellaneous—Eskimo Loan Fund.* Resources and Development Vote 546, Appropriation Act No. 3, 1953, *1952-53, c.54,* authorized a special account in the Consolidated Revenue Fund to be known as the Eskimo Loan Fund from which, under conditions approved by the Treasury Board, loans or investments might be made to or in respect of individual Eskimos or groups of Eskimos to promote commercial activities. The total amount chargeable to the Fund has been progressively increased from $50,000 to $800,000.

The purposes of the original authority were extended in 1954-55 and 1963-64 to cover loans with respect to housing. However, this became inoperative with the introduction of Indian Affairs and Northern Development Vote L51a, Appropriation Act No. 7, 1967, *1967-68, c.8,* which authorized loans and advances to Eskimos through the Indian Housing Assistance Account, on the same terms and conditions as to Indians.

The conditions approved by the Treasury Board provided for an Eskimo Loan Fund Advisory Board to assist in the administration of the Fund, for the granting of loans up to a maximum of $50,000 and for the repayment of the loans, together with interest at 5% per annum, within 20 years. Also set out were the circumstances under which the repayment period might be extended. During the year new conditions provided for two Advisory Boards, one having jurisdiction in the Northwest Territories and the other in the rest of Canada. These new conditions also require repayment within five or ten years, together with simple interest at 5% a year. No extension of the time for repayment can be granted to a date that is more than 15 years from the commencement date of the loan without the approval of the Treasury Board.

The balance of the Fund at March 31, 1972, $569,000, represented 71 loans, including 9 new loans made during the year with outstanding balances of $193,000 at that date and 56 loans which were in arrears to the extent of $199,000. Four loans amounting to $4,000 were written off during the year under authority of section 18 of the Financial Administration Act.

293. *Advances, loans and investments—Domestic—Miscellaneous—Indian Association of Alberta.* Indian Affairs and Northern Development Vote L19b, Appropriation Act No. 1, 1972, *1972, c.1,* authorized a loan of $191,000 to the Indian Association of Alberta to enable the Association to meet its operating deficit for 1971-72. Although not disclosed in the Vote text, the loan had already been made from Treasury Board Vote 5—Government Contingencies.

In accordance with prior arrangements, a Fitness and Amateur Sport grant of $75,000 made to the Association by the Department of National Health and Welfare was applied towards reduction of the loan, leaving a balance of $116,000 outstanding at the year-end.

The loan is interest-free and repayable over a period of five years. (See paragraph 96 of this Report.)

294. *Advances, loans and investments—Domestic—Miscellaneous—Indian Economic Development Account.* Indian Affairs and Northern Development Vote L53b, Appropriation Act No. 1, 1970, *1969-70, c.24*, authorized, for the purposes of economic development of Indians, the making of loans in the current and subsequent fiscal years to Indians, groups of Indians or Indian bands, or to individuals, partnerships or corporations, the activities of which contribute or may contribute to such development. The governing regulations make provision for financial assistance, without the approval of the Treasury Board, in the form of direct loans, repayment of which is required within 15 years, and loan guarantees, provided all amounts outstanding with respect to any one borrower do not exceed $500,000. The total amount that may be outstanding at any time under the Account was increased from $11,050,000 to $19,050,000 by Indian Affairs and Northern Development Vote L15, Appropriation Act No. 3, 1971, *1970-71-72, c.46.*

The balance of the Account at March 31, 1972, $6,356,000, represented 1,227 loans, including 226 new loans made during the year with outstanding balances of $1,545,000 at that date.

During the year nine loans amounting to $14,000 were written off under authority of section 18 of the Financial Administration Act and Indian Affairs and Northern Development Vote 5b, Appropriation Act No. 1, 1972, *1972, c.1.* Payments were past due at March 31, 1972, to the extent of $1,480,000 involving 962 loans.

295. *Advances, loans and investments—Domestic—Miscellaneous—Indian Housing Assistance Account.* Northern Affairs and National Resources Vote L51a, Appropriation Act No. 9, 1966, *1966-67, c.55*, authorized loans and advances to Indians for the construction of houses in areas other than Indian reserves, and the forgiveness of repayment of a loan or any part thereof. The Appropriation also authorized the establishment of a special account in the Consolidated Revenue Fund to be known as the Indian Housing Assistance Account, to which the loans and advances would be charged and amounts repaid or forgiven would be credited. The total amount chargeable to the Account at any time, after deduction of all outstanding advances, has been progressively increased to $5,500,000.

By items in various Appropriation Acts, the purposes of the Vote were extended in 1966-67 to cover the acquisition of houses and land, in 1967-68 to include Eskimos, and in 1971-72 to embrace repairs or improvements to houses at time of purchase.

The governing regulations provide for loans of up to $10,000, secured by a mortgage for a term not exceeding ten years.

The balance of the Account at March 31, 1972, $4,977,000, represented 609 loans with outstanding balances of $4,052,000, advances of $904,000 with respect to some 145 loans, and payments of $21,000 made to protect the Department's interest in certain loans. During the year recoveries totalling $70,000 were effected in connection with 17 loans and 4 loans amounting to $14,000 were written off, while repayments totalling $360,000 and affecting 410 loans were forgiven.

Inasmuch as the policy is to forgive the entire loan over a period of 10 years, provided the person being assisted fulfils his obligations, the loans are not assets within the accounting policy quoted in paragraph 256 of this Report. They should therefore be offset by an adequate reserve for forgiveness.

296. *Advances, loans and investments—Domestic—Miscellaneous—Indian housing loans—Central Mortgage and Housing Corporation.* Indian Affairs and Northern Development Vote L49c, Appropriation Act No. 9, 1966, *1966-67, c.55*, authorized the establishment of a special account in the Consolidated Revenue Fund from which might be advanced in the current and subsequent fiscal years, to the Central Mortgage and Housing Corporation, amounts to cover the losses sustained by the Corporation as a result of loans made to Indians pursuant to the National Housing Act, *R.S., c. N-10*. An amount of $10,000 was provided for the purpose. The purposes of the Vote were extended by Indian Affairs and Northern Development Vote L45, Appropriation Act No. 3, 1969, *1968-69, c.36*, which provided a further amount of $20,000, and Indian Affairs and Northern Development Vote L20, Appropriation Act No. 3, 1970, *1969-70, c.46*, which provided an additional $40,000, to include losses sustained by the Farm Credit Corporation as a result of loans made to Indians pursuant to the Farm Credit Act, *R.S., c. F-2*, and the Farm Syndicates Credit Act, *R.S., c. F-4*. The amount provided was increased by a further $310,000 by Indian Affairs and Northern Development Vote L17a, Appropriation Act No. 4, 1971, *1970-71-72, c.58*.

The balance of the account at March 31, 1972, was $251,000 representing payments during the year of $181,000 to Central Mortgage and Housing Corporation covering losses on 41 loans, and $70,000 to the Farm Credit Corporation to cover one loss. There appears to be little likelihood that the loans will be collected.

The purpose of this special loan account is not clear as obviously losses suffered by Crown corporations cannot realistically be regarded as assets of Canada. In our opinion the amount of $251,000 should be charged to expenditure. We would also recommend that the accumulated loan appropriation of $380,000 be revoked and amounts required to cover such losses in future be provided for annually in the appropriations of the Department.

297. *Advances, loans and investments—Domestic—Miscellaneous—Investment in shares of Panarctic Oils Ltd.* In 1967 Canada joined a consortium of 20 participants, including leading Canadian oil and mining companies, for an oil exploration program in the Arctic islands. Panarctic Oils Ltd. was incorporated for the purpose and Canada agreed to purchase sufficient shares of capital stock in the Company to maintain a 45% equity. (See paragraph 261 of our 1971 Report.)

During the year Canada's subscription to shares in the Company increased by $11,700,000 to $34,256,000, of which $28,256,000 had been called and paid.

At December 31, 1971, Canada's representation on the eighteen-member Board of Directors was five. Canada may appoint additional directors in proportion to its equity if and when it desires to do so.

Financial statements of the Company show exploration costs of $45,011,000 to December 31, 1971, including drilling expense of $26,357,000.

298. *Advances, loans and investments—Domestic—Miscellaneous—Loans to manufacturers re defence plant modernization.* Industry, Trade and Commerce Vote 10 provides funds each year in the product innovation activity of its Trade-Industrial Program to pay half the cost of new equipment to assist Canadian defence industry with plant modernization. Similarly, Industry, Trade and Commerce Vote L15, Appropriation Act No. 3, 1971, *1970-71-72, c.46,* and corresponding votes in prior years have provided loan funds to meet half the cost of new equipment. Both expenditures and loans are subject to the approval of the Treasury Board.

The Department acquires title to the equipment for which assistance is being given by arranging to purchase it from the manufacturer being assisted or by having its original purchase made by him acting as an agent for the Department. When payment is made by the Department, 50% of the price is charged to Vote 10 and 50% to Vote L15. The Department then sells the machinery to the manufacturer being assisted at 50% of its cost payable over five years without interest with title passing on payment of the final instalment.

The loans outstanding at March 31, 1972, totalled $24,909,000 reflecting an increase of $4,141,000 resulting from additional advances during the year of $9,374,-000 and repayments of $5,233,000. Twelve companies were in arrears to the extent of $315,000.

Included were three accounts totalling $191,000 where the equipment had been repossessed and placed in government storage. The Department expects to be able to resell the machinery to other manufacturers for the balance owing.

299. *Advances, loans and investments—Domestic—Miscellaneous—Assisted passage loans.* The balance of $6,146,000 at March 31, 1972, comprises the unpaid portion of loans made to cover the whole or part of the transportation costs of immigrants and their dependants. The Department has classified overdue loans totalling $4,-589,000 as follows: active, although in arrears, $2,565,000; referred to a collection agency, $611,000; referred to overseas offices for collection action as debtors had departed from Canada, $924,000; and uncollectable, $489,000, of which $427,000 is to be written off with ministerial approval in 1972-73.

300. *Advances, loans and investments—Domestic—Miscellaneous—Assisted movement loans.* The balance of $329,000 at March 31, 1972, comprises the unpaid portion of 1,152 loans to workers who moved from place to place in Canada. These loans were made under Manpower Mobility Regulations which were established in 1965

and revoked in 1967 when they were replaced by new regulations providing for the payment of the removal expenses of workers without recovery. All the loans are in arrears by more than four years and there appears to be little prospect of collection.

301. *Advances, loans and investments—Domestic—Miscellaneous—Medicare reimbursements.* Treasury Board Vote 10, Appropriation Act No. 3, 1971, *1970-71-72, c.46*, provides for the Government's contribution towards the cost of health insurance for federal public servants and their dependants on bases prescribed by the Treasury Board. In February 1971 the Treasury Board authorized an increase in the Government's contributions towards medical care programs for federal public servants. Contributions in respect of public servants residing in Ontario, Alberta and British Columbia, Provinces which charge monthly premiums for medical care insurance, were increased to 50% of the premium, the amounts being paid to these Provinces. Contributions in respect of public servants residing in the other provinces are based on the projected provincial per capita cost of the medical care program. Contributions in the case of these provinces are in the form of direct payments to the public servants involved.

Direct payments, retroactive to April 1, 1971, commenced late in 1971 and were charged to departmental suspense accounts from which the charges were to be transferred to Treasury Board Vote 10. However, nine departments failed to transfer amounts totalling $11,000 and that total remained in the accounts over the year-end. This amount, shown under the Department of National Health and Welfare, is not an asset, but is an expense that should have been charged to Treasury Board Vote 10.

302. *Advances, loans and investments—Domestic—Miscellaneous—Loans to settlers in the Bow River Project.* These loans, which are administered by the Prairie Farm Rehabilitation Administration, are made under the authority of Agriculture Vote 483, Appropriation Act No. 6, 1960, *1960, c.48*, in accordance with regulations of the Governor in Council. Loans to any one settler may be made in an amount not exceeding $2,000 for building material for his dwelling, $1,000 for livestock and $750 for fencing materials, the loans to bear 5% per annum simple interest. In 1962 the Governor in Council provided for the consolidation under one agreement of these loans and all other debts due to the Crown by a settler, with interest-bearing debts continuing to carry interest at the agreed rate of 5% per annum and the remaining debts to carry no interest, and with amortization of the entire debt over a period of 25 years; the new agreement replacing all other agreements covering such indebtedness. In 1969 provision was made for loans bearing interest at the rate of 5% per annum to be made to a settler for levelling and improving irrigated land, with a limit of $2,500 in any one year and a maximum of $7,500 per farm unit, these loans being repayable by amortized payments over the remaining years of his Bow River Project Resettlement Land Agreement.

As a consequence of the merging in 1962 of the loans and all other debts of borrowers under their Bow River Project Resettlement Land Agreements, repayments on the loans are not segregated and the amounts recorded as repayments on the loans are calculated by prorating receipts according to a formula. During the year loans made amounted to $6,300 and recorded payments amounted to $3,100, bringing the total loans outstanding at March 31, 1972, to $119,500.

Our verification of these loan accounts is not yet complete but recorded payments in the year of only $3,100, which includes $2,900 pertaining to prior years, on loans of $119,500 with a basic repayment period of 25 years or less, would indicate that payments are in arrears. There is also evidence that the other amounts receivable under the Bow River Project Resettlement Land Agreements are in arrears.

303. *Advances, loans and investments—Domestic—Miscellaneous—National Museums of Canada.* An advance of $50,000 was provided to the National Museums Special Account under Secretary of State Vote L144b, Appropriation Act No. 1, 1970, *1969-70, c.24*, for the purpose of acquiring certain inventories. Since then the operations of the Special Account have been expanded and its funding has been provided by amounts of $150,000 in each year's appropriation. The balance at the credit of the Special Account at March 31, 1972, was $281,000.

Inasmuch as funding for the National Museums Special Account is now being provided through annual appropriations of the Secretary of State (there is also an item of $150,000 in the 1972-73 Estimates), and having regard to the balance available in the Special Account at March 31, 1972, the advance of $50,000 should be repaid.

304. *Advances, loans and investments—Domestic—Miscellaneous—Loans to parolees.* Loans totalling $7,494 were made to 208 parolees during the period February 1963 to September 1969 under the authority provided by Justice Vote L10, Special Appropriation Act, 1963, *1963, c.2*, which approved an amount of $10,000 for the purpose. Loans subsequent to that date have been made under the authority contained in Solicitor General Vote L103b, Appropriation Act No. 1, 1969, *1968-69, c.23*, which also approved the establishment of the Parolees Loan Account and, under certain circumstances, the forgiveness of the repayment of a loan or any part thereof. The total of a loan to a parolee may not exceed $100.

Only $573 has been repaid on loans made under the original authority, leaving a balance outstanding at March 31, 1972, of $6,921. As all these loans are in arrears from three to nine years, the likelihood of collection is remote.

305. *Advances, loans and investments—External—Loans to national governments—Special assistance loans to developing countries.* Since 1964-65, Appropriation Acts have authorized a total of $778 million in special loan assistance to developing

countries and agreements to lend have been entered into with 40 countries, three regional development banks and one group of three countries. At March 31, 1972, the outstanding balance of loans to 43 signatories was $430,797,000, an increase of $143,097,000 in the year which resulted from disbursements of $143,378,000 and repayments of $281,000. Eighteen countries had received two or more loans. The loans outstanding may be classified as follows:

	March 31, 1972	March 31, 1971
Repayable over 40 years, following a grace period of 10 years from the date of execution of each agreement—		
Interest-free—95 loans	$ 361,178,000	$ 228,359,000
Interest at 3/4 of 1% per annum, on the amount of the loans committed less repayments— 28 loans	41,453,000	39,429,000
Repayable over 30 years, following a grace period of 10 years—		
Interest-free—2 loans	1,294,000	978,000
Repayable over 30 years, following a grace period of 5 years—		
Interest at 3/4 of 1% per annum, on the amount of the loan committed less repayments— 1 loan	3,134,000	3,240,000
Repayable over 23 years, following a grace period of 7 years—		
Interest at 3% per annum— 22 loans	17,731,000	12,094,000
Repayable over 20 years, following a grace period of 5 years—		
Interest at 6% per annum— 1 loan	3,249,000	3,424,000
Interest-free advances to the Asian Development Bank, the Caribbean Development Bank, and the Caribbean Agricultural Development Fund, repayable if and when Canada decides to withdraw its advances	2,758,000	176,000
	$ 430,797,000	$ 287,700,000

Interest-free advances made to the Caribbean Agricultural Development Fund, $1,250,000; the Caribbean Development Bank, $1,009,000; the Asian Development Bank, $499,000; and advances at a nominal interest rate to the Central American Bank for Economic Integration, $126,000, are not loans to national governments of developing countries but to international organizations in those countries. As such these should be included with "Subscriptions to capital of, and working capital advances and loans to, international organizations" in the Statement of Assets and Liabilities.

306. *Deposit and Trust Accounts—Canadian Foundation in Rome.* This special account in the Consolidated Revenue Fund was established by External Affairs Vote 6g, Appropriation Act No. 2, 1967, *1966-67, c.85,* for the purpose of providing awards to prominent Canadian scholars or artists wishing to pursue, in Italy, advanced studies or research in any field of the arts or humanities.

Although the Appropriation Act establishing the account provided that the account is to be known as the Canada Foundation Account it has, since inception, been recorded in the Public Accounts as Canadian Foundation in Rome.

In 1966-67 the Account was credited with $497,000 being the face value of bonds received by Canada under the Civilian Relief Agreement of 1950 and the Cultural Agreement of 1954 between Canada and Italy. To March 31, 1971, the excess of

interest and other income over award payments amounted to $71,000 resulting in a balance at that date of $568,000. In the year ended March 31, 1972, award payments totalled $48,000 and interest and other income amounted to $34,000.

The balance at March 31, 1972, $554,000, is invested to the extent of $483,000 in Italian industrial bonds and $71,000 is on deposit in an Italian bank.

307. *Deposit and trust accounts—Public Officers Guarantee Account.* Section 98 of the Financial Administration Act established the Public Officers Guarantee Account, from which payments may be made by way of indemnity for losses suffered by Her Majesty or others by reason of defalcations or other fraudulent acts or omissions of public officers. On January 19, 1967, the Treasury Board directed that unless losses due to defalcations can be recovered in the fiscal year in which they occur, the Board's authority to reimburse the losses from the Account is to be sought before the year-end.

Six losses totalling $774 were charged to the Account during the year. One of these was a $384 balance unrecovered from a loss which was first discovered in 1969-70; the remaining five totalling $390 had occurred during the year. The following departments had failed to transfer to the Account 16 losses totalling $145,296 at March 31, 1972, (see paragraph 228 of this Report):

	Losses discovered in			
	1971 - 72		Prior years	
	Number	Amount	Number	Amount
Indian Affairs and Northern Development		$	1	$ 901
Justice			1	100
Labour			1	1,524
Manpower and Immigration	1	77,950		
National Defence	1	4,663	6	2,689
National Harbours Board	1	49,695		
National Revenue—Customs and Excise			3	6,610
Transport			1	1,164
	3	$ 132,308	13	$ 12,988

The $901 loss reported in 1970-71 by the Department of Indian Affairs and Northern Development was not charged to the Account during the year although Treasury Board approval for this action had been granted on June 3, 1971. This oversight was corrected in October 1972.

308. *Deposit and trust accounts—Saclant Westlant fleet broadcast project.* The Department of National Defence is administering the construction of the Saclant Westlant fleet communication system for the Western Atlantic on behalf of the North Atlantic Treaty Organization. Funds required are withheld from Canada's contributions to NATO and credited to this Account from which administrative

expense and contract payments are made. A balance of $323,000 is shown in the Account at March 31, 1972.

As is explained in paragraph 129 of this Report the balance of the funds withheld had been repaid to NATO and no liability existed at March 31, 1972.

309. *Deposit and trust accounts—National Second Century Fund of B.C.* The National Second Century Fund of British Columbia was established during the year by the Executive and was credited with $4,500,000 transferred from Secretary of State Vote 22a of Appropriation Act No. 4, 1970, *1970-71-72, c.4,* and with interest amounting to $165,000.

The Executive decision establishing the Fund provides that moneys derived from interest may be paid to responsible bodies in British Columbia for the perpetuation and preservation of buildings, parks and ecological areas. The trustees who administer the Fund are also empowered to spend the capital of the Fund, provided measures are taken to maintain the Fund over time.

The Vote made no reference to the establishment of this special Fund, nor to a specific grant of $4,500,000. In our opinion, the charge of $4,500,000 to expenditure of the year was irregular because this amount was not spent, but was transferred to a special account in the Consolidated Revenue Fund without Parliament having given its sanction to the establishment of this special account. The charge to expenditure of $165,000 for interest is similarly irregular as Parliament had not approved the payment of interest. (See paragraph 204 of this Report.)

310. *Deposit and trust accounts—Maritime Pollution Claims Fund.* This account was established by section 746 of the Canada Shipping Act, *R.S., c. S-9,* with effect from July 1, 1971. The Act provides for the Governor in Council to appoint an administrator to administer the Fund but no appointment has yet been made.

The Fund is credited with the levies, authorized by the Governor in Council, imposed in respect of each ton of oil imported by ship into Canada in bulk as a cargo and also in respect of each ton of oil shipped from any place in Canada in bulk as a cargo of a ship to any other place in Canada or elsewhere.

Payments out of the Fund are to be made for the costs and expenses incurred by the administrator, claims and costs awarded against the Fund including claims by fishermen for loss of income, and amounts in respect of actual loss or damage incurred by Her Majesty in right of Canada as a result of the discharge of a pollutant.

The balance of the Fund at March 31, 1972, amounted to $476,000 which represents the tonnage levies received since the Fund commenced operating on February 15, 1972.

311. *Annuity, insurance and pension accounts—Unemployment Insurance Account.* The balance of $36,897,000 in this Account results from advances to the Unemployment Insurance Commission pursuant to section 137 of the Unemployment Insurance Act, 1971, *1970-71-72, c.48,* which were in excess of its needs. The total advanced was $183,630,000 whereas only $146,733,000 was required to cover the deficit in the Account. (See also paragraph 276 of this Report.)

312. *Annuity, insurance and pension accounts—Canadian Forces Superannuation Account.* Section 27 of the Canadian Forces Superannuation Act, *R.S., c. C-9,* requires that at least once in every five years an actuarial report on the state of the Canadian Forces Superannuation Account be laid before Parliament. The latest valuation of the Account was at December 31, 1965. We understand that an actuarial valuation as at December 31, 1970, will be completed early in 1973.

313. *Annuity, insurance and pension accounts—Royal Canadian Mounted Police Superannuation Account.* Section 25 of the Royal Canadian Mounted Police Superannuation Act, *R.S., c. R-11,* requires that at least once in every five years an actuarial report on the state of the Royal Canadian Mounted Police Superannuation Account be laid before Parliament.

On May 17, 1972, a report was tabled showing that an actuarial deficit of $81,000 existed in the Account at December 31, 1969, after making allowances for the amended formula for integration of the Royal Canadian Mounted Police Superannuation Plan benefits with benefits under the Canada Pension Plan. However, no amount was credited to the Account in accordance with section 24(4) of the Act as the actuaries were of the opinion that this situation will correct itself prior to the next valuation.

314. *Undisbursed balances of appropriations to special accounts—Centennial of Confederation Fund.* This Fund was established in 1961 under section 10 of the Centennial of Canadian Confederation Act, *1960-61, c.60.* From time to time the Fund was credited with moneys provided from appropriations of the Privy Council and the Secretary of State. During the year, a payment of $7,900 was made from the Fund, leaving a balance at March 31, 1972, of $793,000. As there are no further commitments outstanding against the Fund, the balance of $793,000 is not required for the purpose for which it was appropriated and should be transferred to revenue.

315. *Suspense accounts—Department of National Defence.* This Department's suspense accounts totalled $1,189,000 at March 31, 1972, including $1,139,000 in proceeds from disposal of surplus stores and equipment at overseas locations during the period November 1971 to March 1972. These proceeds are required to be remitted to Crown Assets Disposal Corporation. After deducting its agency fees the Corporation returns the balance to the Department for deposit in the Surplus Crown Assets Account. Normally the remittances to Crown Assets Disposal Corporation are made

promptly each month but delays which started in November 1971 resulted in this amount remaining in suspense over the year-end.

316. *Suspense accounts—Department of Transport.* This Department's suspense accounts at March 31, 1972, totalled $463,000 of which $146,000 was incorrectly classified under the Department of Finance as "unclaimed cheques" and reported under that caption in the Public Accounts. As a result the Public Accounts show only $317,000 as the total of the amounts held in "suspense" by the Department of Transport.

Included is an amount of $100,000 received from the Lakehead Harbour Commission in payment of a loan instalment in advance of the due date. In our opinion, this payment should have been credited to the loan account immediately upon receipt. As a result of it being carried in "suspense", the amount owing by the Lakehead Harbour Commission at March 31, 1972, is overstated by $100,000.

The remaining items are being held in suspense until final disposition can be made.

317. *Unmatured debt.* Included in the unmatured debt, amounting to $27,258 million at March 31, 1972, are the following treasury bills and bonds totalling $5,482 million which mature within the ensuing fiscal year:

Treasury bills due within—	
three months	$ 2,355,000,000
six months	1,075,000,000
364 days	400,000,000
	3,830,000,000
Loan of 1969 due April 1, 1972	235,000,000
Loan of 1970 due April 1, 1972	215,000,000
Loan of 1958 due September 1, 1972	717,000,000
Loan of 1970 due December 15, 1972	100,000,000
Loan of 1971 due December 15, 1972	125,000,000
Loan of 1969 due February 1, 1973	110,000,000
Loan of 1970 due February 1, 1973	150,000,000
	1,652,000,000
	$ 5,482,000,000

Although debt falling due within one year is normally regarded as a current liability, no portion of this unmatured debt, $2,805 million of which falls due within the first three months of the ensuing year, has been included with the "Current and demand liabilities" in the Statement of Assets and Liabilities as at March 31, 1972.

Crown Corporations

318. A Crown corporation, as defined by section 66(1) of the Financial Administration Act, is a corporation that is ultimately accountable, through a Minister, to Parliament for the conduct of its affairs. Departmental corporations are named in Schedule B to the Act and are responsible for administrative, supervisory or regulatory services of a governmental nature. Agency corporations are named in Schedule C and are responsible for the management of trading or service operations on a quasi-commercial basis or for the management of procurement, construction or disposal activities on behalf of the Crown. Proprietary corporations are named in Schedule D and are responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

319. The following paragraphs are concerned with agency and proprietary corporations to which sections 67 to 78 of the Act apply and certain other Crown corporations which have not been named in any of the Schedules to the Act.

320. Section 75 of the Act requires each corporation to prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus, containing such information as, in the case of a company incorporated under the Canada Corporations Act, *R.S., c. C-32*, is required to be laid before the company by the directors at an annual meeting.

321. Section 77 of the Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation and to state in his report whether in his opinion:

(a) proper books of account have been kept by the corporation;

(b) the financial statements of the corporation

  (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,

  (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and

  (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and

(c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation.

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

322. Section 77 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 75 directs that such annual report be submitted to the appropriate Minister within three months after the termination of each financial year and that it be laid before Parliament by the Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

323. The Auditor General is auditor or joint auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1972:

Corporation	Reporting Minister
Atomic Energy of Canada Limited	Energy, Mines and Resources
Canada Deposit Insurance Corporation	Finance
Canadian Arsenals Limited	Supply and Services
Canadian Broadcasting Corporation	Secretary of State
Canadian Commercial Corporation	Supply and Services
Canadian Dairy Commission	Agriculture
Canadian Film Development Corporation	Secretary of State
Canadian Livestock Feed Board	Agriculture
Canadian National (West Indies) Steamships, Limited	Transport
Canadian Overseas Telecommunication Corporation	Communications
Canadian Patents and Development Limited	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
Canadian Saltfish Corporation	Fisheries
The Company of Young Canadians	Secretary of State
Crown Assets Disposal Corporation	Supply and Services
Defence Construction (1951) Limited	National Defence
Eldorado Aviation Limited	Energy, Mines and Resources
Eldorado Nuclear Limited	Energy, Mines and Resources
Export Development Corporation	Industry, Trade and Commerce
Farm Credit Corporation	Agriculture
Freshwater Fish Marketing Corporation	Fisheries
The National Battlefields Commission	Indian Affairs and Northern Development
National Capital Commission	Minister of State for Urban Affairs
National Harbours Board	Transport
Northern Canada Power Commission	Indian Affairs and Northern Development
Northern Transportation Company Limited and subsidiary company	Transport
Polymer Corporation Limited and subsidiary companies	Supply and Services
Royal Canadian Mint	Supply and Services
St. Clair River Broadcasting Limited	Secretary of State

Corporation	Reporting Minister
The St. Lawrence Seaway Authority........	Transport
The Seaway International Bridge Corporation, Ltd................................	Transport
Uranium Canada, Limited.................	Energy, Mines and Resources

324. In addition the Auditor General has been appointed auditor of the following newly incorporated Crown corporations reporting to the Minister of Transport whose first financial year ends on December 31, 1972:

Atlantic Pilotage Authority
Great Lakes Pilotage Authority
Laurentian Pilotage Authority
Pacific Pilotage Authority

325. Since the Auditor General has not been appointed the auditor or the joint auditor of the following Crown corporations and public instrumentalities, their accounts were not examined by him during the year:

Corporation or Instrumentality	Reporting Minister
Air Canada...............................	Transport
Bank of Canada	Finance
Canadian National Railways	Transport
The Canadian National Railways Securities Trust	Transport
The Canadian Wheat Board	Hon. Otto E. Lang
Cape Breton Development Corporation.....	Regional Economic Expansion
Central Mortgage and Housing Corporation	Minister of State for Urban Affairs
Industrial Development Bank..............	Finance

326. The paragraphs that follow deal with the various corporations audited by the Auditor General. In each case an introductory comment describes briefly the origin of the corporation and the nature of its activity followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the year in comparison with the preceding year, and any other matter which might be of interest to the House of Commons.

327. *Atomic Energy of Canada Limited.* This Company was incorporated in 1952 under the Canada Corporations Act, *R.S., c. C-32*, pursuant to authority contained in the Atomic Energy Control Act, *R.S., c. A-19*, to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office is in Ottawa. The Commercial Products Division of the Company has offices and a manufacturing plant at South March, Ont., and a laboratory in Ottawa. Nuclear power stations are located at Rolphton, Ont., Douglas Point, Ont., Pickering, Ont., and Gentilly, Que. Nuclear reactors and research and development laboratories are maintained at Chalk River, Ont., and at the Whiteshell establishment in Manitoba. Shopping centres, housing, staff hotels, and hospitals at Deep River, Ont., and at Pinawa, Man., were constructed for the employees of the Chalk River and Whiteshell establishments. The Bruce heavy water plant and an auxiliary steam supply plant are under construction at Douglas Point, Ont. In accordance with an agreement between Canada and the Province of Nova Scotia, the Company was given responsibility for the rehabilitation and subsequent operation of the heavy water plant at Glace Bay, N.S., and work commenced on the rehabilitation during the year. A Power Projects group, located at Sheridan Park, Ont., is responsible for the engineering, development, construction and management of nuclear power generating projects and a group at Peterborough, Ont., is responsible for design engineering on reactor fuel handling systems. Radioisotopes produced in the Company's reactors, and equipment designed and built by the Company to use these radioisotopes, are marketed throughout the world. Under specific parliamentary authority, a transmission line and related facilities in connection with the Nelson River hydro-electric power project are being built by the Company in accordance with an agreement between Canada and the Province of Manitoba.

The Crown's equity in the Company at March 31, 1972, and at March 31, 1971, comprised:

	March 31, 1972	March 31, 1971
Loans and accumulated interest for—		
Nelson River transmission line	$ 168,203,000	$ 151,089,000
Bruce heavy water plant	148,425,000	79,963,000
Pickering nuclear power station	121,955,000	98,544,000
Gentilly nuclear power station	90,228,000	85,528,000
Douglas Point nuclear power station	77,596,000	77,596,000
Bruce auxiliary steam plant	21,570,000	12,392,000
Heavy water inventory	20,600,000	10,000,000
Housing projects and commercial buildings	19,459,000	18,946,000
	668,036,000	*534,058,000*
Capital stock	15,000,000	15,000,000
Retained earnings	2,189,000	1,594,000
	$ 685,225,000	$ 550,652,000

Not recorded as equity of the Crown is the cost of the Company's research facilities, $238,140,000, which has been charged to parliamentary appropriations and to retained earnings.

The Nelson River transmission line extending from Kettle Rapids to Winnipeg, a distance of 556 miles, is estimated to cost $194 million with completion scheduled for early 1975. The Company will retain ownership of the line and will lease it to

Manitoba Hydro at rates sufficient to retire the loans from Canada with interest over a period of fifty years.

The loans from Canada with respect to the Bruce heavy water plant, the Bruce auxiliary steam plant and the heavy water inventory are to be retired from revenue obtained from the sale of heavy water.

The Company's investment in the Pickering nuclear power station is expected to be recovered from the Hydro-Electric Power Commission of Ontario but this is dependent on the success achieved in the operation of the station. Operation during the year resulted in the Company receiving $2.1 million as its share of the net revenue earned and this amount was applied towards repayment of the loans from Canada and accumulated interest.

After the Gentilly nuclear power station has been established as a safe and dependable source of power, it is to be sold to the Quebec Hydro-Electric Commission at a price calculated to make the estimated future cost of energy produced equal to that from a fossil-fired conventional thermal generating station. Whether the sale price will be sufficient to permit the Company to repay the loans remains to be determined.

Originally the Douglas Point nuclear power station was to be sold to the Hydro-Electric Power Commission of Ontario under an arrangement similar to that for the Gentilly station. However, the role of the Douglas Point station in the next few years is to be altered in that, in addition to producing electricity for the Hydro-Electric Power Commission of Ontario, it is to produce steam for the Bruce heavy water plant. Consequently, although the contract with the Commission for the sale of the station is still in effect, it is not known when the sale is to take place or when the loans will be repaid. The station earned revenue of $5.3 million in 1971-72 from the sale of electricity but incurred an operating loss of $2.4 million exclusive of depreciation. If anticipated reductions in future operating costs and increased revenue from the sale of steam are achieved, any excess of revenue over operating costs is to be applied to repayment of the loans.

The loans from Canada with respect to housing projects and commercial buildings are being repaid in accordance with established schedules.

A comparative summary of income and expense of the Company for the past two years follows:

	Year ended March 31	
	1972	1971
Research program—		
Operating expense	$ 91,753,000	$ 86,622,000
Gross income from engineering services, housing accommodation, hospitals, sales of steam, etc.	23,359,000	20,594,000
Excess of expense over income	$ 68,394,000	$ 66,028,000

	Year ended March 31 1972	1971
Excess of expense over income provided for by:		
Energy, Mines and Resources:		
Vote 35 of 1971-72	$ 68,415,000	$ 2,217,000
Vote 40 of 1970-71	—	63,869,000
	68,415,000	*66,086,000*
Less: Amount refundable	21,000	58,000
	$ 68,394,000	$ 66,028,000
Capital expenditure provided for by:		
Energy, Mines and Resources Vote 40 (Vote 45 in 1970-71)	$ 6,436,000	$ 5,131,000
Retained earnings	515,000	1,382,000
	$ 6,951,000	$ 6,513,000
Commercial operations—		
Income	$ 10,336,000	$ 10,039,000
Expense:		
Cost of sales	6,265,000	6,234,000
Research and development, selling and administration	3,970,000	4,234,000
	10,235,000	10,468,000
Excess of income over expense	$ 101,000	$ (429,000)

The increase of $5,131,000 in the operating expense of the research program was due mainly to an increase of $3,983,000 in salaries, wages and employee benefits.

The increase of $2,765,000 in gross income from engineering services, housing accommodation, hospitals, sales of steam, etc., was due mainly to increased sales of engineering services by the Power Projects group.

The increase of $297,000 in income from commercial operations was due mainly to an increase in sales of medical products.

328. *Canada Deposit Insurance Corporation.* This Corporation was established by the Canada Deposit Insurance Corporation Act, *R.S., c. C-3*, to provide deposit insurance for the benefit of persons having deposits with federally incorporated institutions and those provincially incorporated institutions with which the Corporation enters into contracts, and to accumulate, manage and invest a Deposit Insurance Fund and any other funds accumulated as a result of its operations. The head office is in Ottawa.

The Corporation is administered by a Board of Directors consisting of the Chairman, appointed by the Governor in Council, the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Insurance and the Inspector General of Banks. There were 75 member institutions whose customers' Canadian currency deposits, to a maximum of $20,000, were insured by the Corpora-

tion. These member institutions comprised 10 banks, 22 federally and 7 provincially incorporated trust and loan companies supervised by the Superintendent of Insurance, and 36 other provincially incorporated trust and loan companies.

Sections 21 and 22 of the Act require that the affairs of member institutions be examined at least once in each year. The banks were examined and reported on by the Inspector General of Banks and the trust and loan companies by the Superintendent of Insurance.

Deposits insured by the Corporation, based on returns made by member institutions during 1971, totalled $27,216 million comprising deposits of $24,556 million in federal institutions and $2,660 million in provincial institutions.

The Crown's equity in the Corporation at December 31, 1971, was $14,973,000 comprising capital stock, $10,000,000, and accumulated net earnings, $4,973,000.

The balance of the Deposit Insurance Fund at December 31, 1971, was $37,018,000.

A comparative summary of income and expense for the past two years follows:

	Year ended December 31	
	1971	1970
Income—		
Interest on investments	$ 1,823,000	$ 1,567,000
Interest on loans to member institutions	812,000	1,722,000
	2,635,000	3,289,000
Expense—		
Salaries and employee benefits	69,000	66,000
Interest on advances from Canada	66,000	1,101,000
Inspection fees and expenses	59,000	73,000
Other	70,000	84,000
	264,000	1,324,000
Excess of income over expense	$ 2,371,000	$ 1,965,000

Section 36 of the Act provides that the Corporation may pay from accumulated net earnings a dividend on its share capital at an annual rate equal to the rate of interest being charged on government loans to Crown corporations. The accumulated net earnings at December 31, 1971, amounted to $4,973,000 and subsequent to the year-end the Corporation for the first time paid a dividend of $493,750 on its share capital of $10 million. (See paragraph 91 of this Report.)

The Corporation has been designated a proprietary corporation and as such is subject to income tax. However, Order in Council P.C. 1968-10/585 of March 28, 1968, remitted, under section 17 of the Financial Administration Act, any income tax payable by the Corporation. In its Second Report 1972, the Public Accounts

Committee expressed the opinion that this Order in Council should be revoked and the Corporation required to pay income tax (see Appendix 1, item 38).

329. *Canadian Arsenals Limited.* This Company, with its head office in Ottawa, was incorporated under the Canada Corporations Act, *R.S., c. C-32,* pursuant to authority contained in the Department of Reconstruction Act, 1944, *1944-45, c.18.* The main objects of the Company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment.

At March 31, 1972, the Crown's equity in the Company consisted of a working capital advance of $4,000,000.

During the year the Company was the custodian of and operated two Crown-owned plants which cost $33 million. The operating results for the past two years are shown in the following summary:

	Year ended March 31	
	1972	1971
Income—		
Sales	$ 2,568,000	$ 4,895,000
Miscellaneous	402,000	360,000
	2,970,000	5,255,000
Expense—		
Cost of sales	4,532,000	6,391,000
Administration	294,000	335,000
	4,826,000	6,726,000
Excess of expense over income provided for by Supply and Services Vote 15	$ 1,856,000	$ 1,471,000

Unfilled sales orders at March 31, 1972, amounted to approximately $3.5 million compared with $4.3 million at the end of the previous year and $6.7 million at March 31, 1970.

330. *Canadian Broadcasting Corporation.* This Corporation was established in 1936 and, under the Broadcasting Act, *R.S., c. B-11,* operates national television and radio broadcasting services and an international shortwave service. The head office is in Ottawa and regional offices are located in St. John's, Halifax, Quebec, Montreal, Ottawa, Toronto, Windsor, Winnipeg, Edmonton and Vancouver.

Capital expenditure during the year amounted to $24,602,000 which was financed by loans from Canada of $24,127,000 and from the proceeds of the sale of capital assets, $475,000. This capital expenditure is classified as consolidation of facilities, $14,782,000, improvements to coverage, $3,020,000, and additions and replacements, $6,800,000. The accumulated cost of capital assets, $238,205,000, has been financed to the extent of $137,480,000 by loans from Canada which bear interest varying from 5 1/4% to 8 1/2% and are each repayable in 20 equal annual instalments (see paragraph 58 of this Report).

Included in capital expenditure is $70,357,000 expended during the past thirteen years in connection with the planned consolidation of facilities in Moncton, Montreal, Ottawa, Toronto and Vancouver. The Corporation's estimate at March 31, 1972, of the future cost of consolidation of facilities was $108,000,000 of which, subject to the provision of funds by Parliament for the purpose, approximately $17,000,000 will be expended during the year ending March 31, 1973, and $91,000,000 in subsequent years.

At March 31, 1972, the Crown's equity in the Corporation was $159,055,000 represented by the net book value of capital assets, $145,556,000, working capital, $11,426,000, investment in a subsidiary, $1,600,000, and deferred charges, $473,000.

A summary of the source and application of the Corporation's funds in 1971-72 follows:

Source—	
Parliamentary appropriations:	
Payment for operating expenditure	$ 181,000,000
Loans for capital expenditure	33,040,000
	214,040,000
Advertising revenue	49,425,000
Depreciation and amortization	11,331,000
Miscellaneous—including proceeds from sale of assets	2,020,000
	$ 276,816,000
Application—	
Total operating expense	$ 237,218,000
Additions to capital assets	24,602,000
Repayment of capital loans	6,565,000
Increase in working capital	8,431,000
	$ 276,816,000

The following is a summary of the net cost of operations for the past two years:

	Year ended March 31	
	1972	1971
Expense—		
Cost of production and distribution:		
Programs	$ 146,443,000	$ 134,624,000
Network distribution	18,068,000	17,834,000
Station transmission	11,740,000	11,316,000
Commissions to agencies and networks	5,653,000	5,056,000
Payments to private stations	5,504,000	5,148,000
Operational supervision and services	20,211,000	17,779,000
External services	4,916,000	4,401,000
Emergency broadcasting	195,000	204,000
	212,730,000	*196,362,000*
Selling and general administration	16,065,000	14,342,000
Interest on loans to finance the acquisition of capital assets	8,423,000	7,435,000
	237,218,000	218,139,000
Income—		
Advertising revenue, etc.	50,970,000	47,466,000
Net cost of operations	$ 186,248,000	$ 170,673,000

The major expense elements contributing to the increase in the cost of operations were: salaries, wages and other employment expenses, $9,940,000; performers' fees, authors', composers' and other rights, $3,282,000; production costs, $2,250,000; building rental and maintenance, $1,136,000; and interest on loans from Canada, $988,000. The increase in salaries, wages and other employment expenses was due to increases in salary and wage rates coupled with an increase in staff. Personnel on strength at March 31, 1972, including temporary, part-time and casual employees was 9,455 compared with 9,117 at the previous year-end. The increase in performers' fees and authors', composers' and other rights as well as the increase in production costs was due mainly to an increase in Canadian content. The increase in building rental and maintenance was due to higher rentals, increased space, and leasehold improvements to new accommodation for television and film production units in Toronto.

The increase of $3,504,000 in advertising revenue, etc., was mainly due to a greater volume of business and higher advertising rates, primarily in spot announcements, $1,850,000, network station time, $1,156,000, and charges for sponsored programs, $776,000.

Expenditures incurred in connection with future programs are recorded as current assets of the Corporation until such time as the programs are broadcast. These assets were as follows:

	March 31, 1972	March 31, 1971
Programs completed and in process of production	$ 11,017,000	$ 7,753,000
Film and script rights	3,534,000	2,705,000
	$ 14,551,000	$ 10,458,000

These amounts are after giving effect to the following write-offs of expenditure incurred in connection with programs which proved to be unsuitable because of technical difficulties, scheduling changes, pre-emptions, inferior quality, expiry of right, etc.:

	1971-72	1970-71
Programs completed and in process of production	$ 2,970,000	$ 808,000
Film rights	242,000	177,000
Script rights	87,000	92,000
	$ 3,299,000	$ 1,077,000

The write-offs of programs completed and in process of production include $2,517,000 relating to programs which could not be used because of employee work stoppages.

On June 29, 1970, the Corporation, with the approval of the Governor in Council, acquired St. Clair River Broadcasting Limited (St. Clair) and on July 24, 1970, invested $1.6 million in that Company. On the same date St. Clair entered into a partnership agreement with a private company to purchase, with retroactive effect from March 1, 1970, Windsor television station CKLW at a price of US$5 million. St. Clair has a one-quarter interest in the partnership.

The operations of St. Clair from date of acquisition to March 31, 1972, resulted in a loss of $1,404,000 which included $1,218,000 as its share of the $4,872,000 operating loss of the television station for the twenty-five months ended March 31, 1972. (See paragraph 72 of this Report.)

The equity of the Corporation in St. Clair was therefore reduced from $1,600,000 at March 1, 1970, to $196,000 by March 31, 1972. No provision for this loss was made in the accounts of the Corporation at that date but attention was drawn to it in a note appended to its financial statements. It should be noted that unless the losses experienced to date by the partnership are offset by subsequent profits the Corporation, through its subsidiary St. Clair, will have to absorb the full loss of $4,872,000 because of the requirement that on or before May 31, 1975, St. Clair purchase its partner's share at cost, $3,750,000, plus accrued interest.

331. *Canadian Commercial Corporation.* This Corporation was established in 1946 by the Canadian Commercial Corporation Act, *R.S., c. C-6,* to provide procurement services in Canada for the governments of other countries and for international organizations. Its head office is in Ottawa. During the year, the Corporation's purchases on behalf of its customers totalled $149 million compared with $182 million in the preceding year.

The Crown's equity in the Corporation at March 31, 1972, was $14,961,000, consisting of a $10,000,000 working capital advance, $5,500,000 in interest-bearing loans and a $225,000 reserve for contingencies, less a loss of $764,000 on the valuation of US dollar holdings at March 31, 1972. (See paragraph 278 of this Report.)

A comparative summary of the Corporation's operations for the past two years follows:

	Year ended March 31	
	1972	1971
Expense—		
Estimated cost of administrative services	$ 5,479,000	$ 5,140,000
Income—		
Interest earned on:		
Investments	338,000	422,000
Special progress payments to suppliers	28,000	95,000
	366,000	517,000

	Year ended March 31	
	1972	1971
Less:		
Interest on loans from Canada	$ 327,000	$ 327,000
Bank charges	1,000	—
	328,000	327,000
	38,000	190,000
Net cost of operations	$ 5,441,000	$ 4,950,000
Net cost of operations provided for by—		
Supply and Services Vote 20	$ 3,670,000	$ 3,675,000
Government departments which provided major services without charge	1,771,000	1,275,000
	$ 5,441,000	$ 4,950,000

The decrease in interest earned was due mainly to a decrease in interest rates and the termination of a large contract involving special progress payments to the supplier.

In 1967 the Corporation entered into an agreement with the Netherlands to supply 105 aircraft at a ceiling price notwithstanding the fact that the aircraft manufacturer was not committed to a firm or ceiling delivery price. It now appears that costs will exceed the ceiling price. Another loss may result from advance payments made to a supplier in excess of a firm contract price with a customer if the contract cannot be renegotiated.

Our statutory report to the Minister of Supply and Services on the audit of the Corporation's accounts for the year ended March 31, 1972, was qualified with respect to an amount of $17.1 million received by the Corporation in partial payment for aircraft sold to a foreign government on behalf of the Department of National Defence and $45,000 in interest earned on these funds. The funds had been invested by the Corporation in deposit receipts of a chartered bank. In our opinion the amounts received in respect of the sale should have been paid into the Consolidated Revenue Fund. (See paragraph 74 of this Report.)

332. *Canadian Dairy Commission.* This Commission, established by the Canadian Dairy Commission Act, *R.S., c. C-7,* consists of a chairman and two members appointed by the Governor in Council. The head office is in Ottawa. The objects of the Commission are to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

In carrying out its functions the Commission pays subsidies, under a quota system, direct to producers of manufacturing milk and cream on their deliveries to processing plants, and supports the domestic prices of butter, skim milk powder and

cheese, by offering to purchase any surpluses at prescribed prices. Holdbacks from subsidy payments and, since December 1, 1970, levies received through Ontario, Quebec and Prince Edward Island milk marketing boards on the market price paid to producers (in lieu of holdbacks) are applied against losses on export sales at world market prices.

The financial transactions of the Commission, other than those relating to administrative expense, are recorded in the Canadian Dairy Commission Account established in the Consolidated Revenue Fund pursuant to section 15 of the Act. The purchase of dairy products to support market prices was financed by means of loans from the Minister of Finance. However, at the year-end all loans had been repaid and the inventories were financed by the Commission's surplus, $9,070,000. This surplus had increased by $7,586,000, the amount by which payments to the Commission by the Agricultural Stabilization Board from Agriculture Vote 15 exceeded the expenditure of the Commission during the year.

The Crown's equity in the Commission at March 31, 1972, was $9,070,000, represented by cash on deposit with the Receiver General, $18,857,000, accounts receivable, $1,579,000, an inventory of butter, $4,168,000, less subsidies and other accounts payable, $15,534,000.

The following is a summary of the operations of the Commission for the past two years:

	Year ended March 31	
	1972	1971
Dairy price support program—		
Subsidies (gross) to producers of manufacturing milk and cream (net after holdbacks, $99,917,000; 1970-71—$78,074,000)	$ 100,695,000	$ 102,835,000
Cost of disposal of surplus dairy products:		
Skim milk powder	4,402,000	20,938,000
Skim milk diverted to production of casein rather than milk powder	2,906,000	2,385,000
Butter	73,000	905,000
Evaporated milk and dry whole milk	28,000	168,000
Cheese	(53,000)	5,303,000
	7,356,000	29,699,000
Deduct:		
Levies on producers with respect to provincial market quotas	7,740,000	4,065,000
Holdbacks from producer subsidies	778,000	24,761,000
	8,518,000	28,826,000
	(1,162,000)	873,000
Net cost of marketing operations	1,789,000	8,061,000
Cost of products damaged or lost in storage, less salvage value	68,000	126,000
Miscellaneous expense	24,000	38,000
Cost of program	101,414,000	111,933,000
Administrative expense	1,026,000	904,000
Total expenditure	$ 102,440,000	$ 112,837,000

	Year ended March 31	
	1972	1971
Total expenditure provided for by—		
Agricultural Stabilization Board for the purpose of stabilizing the price of dairy products—Agriculture Vote 15	$ 109,000,000	$ 125,000,000
Agriculture Vote 30—Administrative expense	535,000	453,000
Government departments which provided certain services without charge	491,000	451,000
	110,026,000	125,904,000
Funds received from Agricultural Stabilization Board—Agriculture Vote 15—in excess of requirements for current year's operations	7,586,000	13,067,000
	$ 102,440,000	$ 112,837,000

The cost of disposal of surplus dairy products, $7,356,000, comprises $4,190,000 applicable to the disposal of surplus products by the Commission and $3,166,000 representing subsidies paid on privately-owned stocks. Levies on, and holdbacks from, producers were used to meet this cost.

The following is a summary by commodities of the net cost of marketing operations to stabilize domestic prices, together with totals for the previous year:

			Year ended March 31	
	Butter	Skim milk powder	1972	1971
Sales	$ 57,127,000	$ 22,186,000	$ 79,313,000	$ 74,864,000
Portion of levies on, and holdbacks from, producers applicable to surplus products sold	73,000	4,117,000	4,190,000	15,518,000
	57,200,000	26,303,000	83,503,000	90,382,000
Cost of products sold	55,201,000	25,859,000	81,060,000	89,692,000
Gross profit	1,999,000	444,000	2,443,000	690,000
Expense—				
Storage	1,129,000	151,000	1,280,000	2,718,000
Freight and handling	1,067,000	544,000	1,611,000	1,824,000
	2,196,000	*695,000*	*2,891,000*	*4,542,000*
Loss	$ 197,000	$ 251,000	448,000	3,852,000
Interest on loans			1,341,000	4,209,000
Net cost of marketing operations			$ 1,789,000	$ 8,061,000

The reduction in net cost of marketing operations arises from a reduction of $2,868,000 in interest on loans because of lower inventories, higher prices realized on disposal of butter and skim milk powder, and a reduced volume of skim milk powder.

The cost of products damaged or lost in storage, $68,000, represents the loss resulting from a shortage in an inventory of milk powder disclosed when a warehou-

sing company failed to deliver when required. In accordance with the Government's policy of underwriting its own risks, the Commission does not insure its inventories against fire or theft by outsiders. Neither does it insure against other risks (see paragraph 75 of this Report).

A summary of the administrative expense for the past two years follows:

	Year ended March 31	
	1972	1971
Remuneration of Members of the Commission	$ 79,000	$ 79,000
Salaries and employee benefits	308,000	282,000
Data processing	438,000	386,000
Cheque issue	53,000	65,000
Miscellaneous	148,000	92,000
	$ 1,026,000	$ 904,000

The administrative expense of $1,026,000 includes $491,000 for the estimated value of services provided without charge by the Department of Agriculture and the Department of Supply and Services. We reiterate the recommendation made in previous Reports that provision for the cost of these services be made in the Canadian Dairy Commission vote for administration, so that the total cost of administering the dairy price support program will be assembled in one vote.

333. *Canadian Film Development Corporation.* This Corporation was established by the Canadian Film Development Corporation Act, *R.S., c. C-8.* There are seven members, six appointed by the Governor in Council, and the Government Film Commissioner. Its objects are to foster and promote the development of a feature film industry in Canada, for which the Act appropriated $10 million, subsequently increased to $20 million by Secretary of State Vote 63a, Appropriation Act No. 4, 1971, *1970-71-72, c.58,* to be paid out of the Consolidated Revenue Fund from time to time as required. The head office is in Montreal, Que.

Payments from the appropriation since the Corporation commenced operations on April 1, 1968, to March 31, 1972, totalled $7,317,000 of which $2,597,000 was paid in 1971-72 comprising $779,000 for investment in Canadian feature film productions and $1,818,000 for operating purposes. The balance available in the appropriation at March 31, 1972, was therefore $12,683,000. At that date the Corporation was committed to invest a further $2,597,000 in Canadian feature film productions.

Amounts advanced for investment in, or loans to producers of, Canadian feature film productions are paid from the statutory appropriation and charged to the Canadian Film Development Advance Account. Amounts recovered, together with interest earnings and profits, are credited to the Account and are available for reinvestment. At March 31, 1972, the balance in the Account was $3,866,000 which, together with accumulated interest earnings and profits of $160,000, including

$26,000 earned during the year, was represented by investments of $4,011,000 in Canadian feature film productions, and accruals of $15,000.

The Crown's equity in the Corporation at March 31, 1972, was $4,057,000 comprising amounts invested in Canadian feature film productions, $4,011,000, working capital, $25,000, and furniture and fixtures, $21,000.

The following is a summary of the expense of the Corporation for the past two years:

	Year ended March 31	
	1972	1971
Administration—		
Salaries of Members and executive officers	$ 57,000	$ 49,000
Other salaries and employee benefits	79,000	63,000
Advisory fees	43,000	38,000
Rent, leasehold improvements and taxes	38,000	27,000
Printing, postage and general office expenses	22,000	14,000
Professional and special services	18,000	7,000
Staff and Members' travel	18,000	18,000
Depreciation	5,000	6,000
Other	14,000	10,000
	294,000	*232,000*
Grants to film makers and film technicians resident in Canada	70,000	68,000
Cannes Festival	18,000	18,000
Provision for loss on investments	1,427,000	672,000
Total expense	$ 1,809,000	$ 990,000
Total expense provided for by—		
Statutory appropriation	$ 1,818,000	$ 998,000
Less: Expenditure on furniture, fixtures and other assets	13,000	6,000
	1,805,000	992,000
Depreciation	5,000	6,000
Decrease in accounts payable—operating	(1,000)	(8,000)
	$ 1,809,000	$ 990,000

The increase in salaries was mainly due to annual increments and retroactive salary adjustments. Rent, leasehold improvements and taxes increased as a result of additional space requirements. Jury fees and script readers fees accounted for the greater part of the increase in professional and special services.

The provision for loss on investments represents a net charge of $597,000 for investments written off in the amount of $1,097,000 less $500,000 provided for in the previous year, and $830,000 provided for losses on amounts invested in 22 films that may not be recovered through lack of significant bookings. The investments written off comprise $112,000 in respect of 10 investments reduced to the nominal value of one dollar each and $985,000 for 22 investments reduced to 40% of the amounts invested.

334. *Canadian Livestock Feed Board.* This Board, established by the Livestock Feed Assistance Act, *R.S., c. L-9*, consists of four members appointed by the Governor in Council. The objects of the Board are to ensure the availability of feed grain to meet the needs of livestock feeders, the availability of adequate storage space in Eastern Canada for feed grain, and the maintenance of reasonable stability in, and fair equalization of, feed grain prices in Eastern Canada and British Columbia. The headquarters of the Board is in Montreal, Que.

The following is a summary of the expenditure of the Board for the past two years:

	Year ended March 31	
	1972	1971
Freight assistance on feed grains	$ 20,192,000	$ 20,443,000
Administration—		
Salaries and employee benefits	282,000	241,000
Accounting and cheque issue services	37,000	50,000
Travel and removal	30,000	26,000
Accommodation	27,000	24,000
Professional and special services	20,000	24,000
Stationery, office supplies and equipment	15,000	12,000
Telephone, telegraph and postage	13,000	13,000
Other	17,000	14,000
	441,000	404,000
Total expenditure	$ 20,633,000	$ 20,847,000
Total expenditure provided for by—		
Agriculture Vote 40	$ 20,192,000	$ 20,443,000
Agriculture Vote 35	371,000	330,000
Treasury Board—Reserve for salary revisions	6,000	—
Government departments which provided certain major services without charge	64,000	74,000
	$ 20,633,000	$ 20,847,000

The increase of $41,000 in salaries and employee benefits is mainly attributable to salary increases including retroactive payments and the filling of a position vacant in the previous year. The decrease of $13,000 for accounting and cheque issue services reflects the take-over of the pre-audit of assistance claims from the Department of Supply and Services.

No payment was made for accounting and cheque issue services, $37,000, provided by the Department of Supply and Services, and for accommodation, $27,000, provided by the Department of Public Works. It is the general policy that Crown corporations pay for these services and we reiterate the recommendation made in previous Reports that provision should be made for these costs in the appropriation for the operating expenditures of the Board.

335. *Canadian National (West Indies) Steamships, Limited.* The operations of this Company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests.

The Crown's equity in the Company at December 31, 1971, was $554,000 represented by cash, $5,000, a deposit with the Receiver General, $95,000, and $470,000 receivable under an agreement of sale, less a liability of $14,000 in respect of unclaimed matured bonds and other liabilities of $2,000.

The balance receivable under the agreement of sale represents the final instalment which was due August 19, 1963, through the Bank of America. Payment continues to be prohibited by the Cuban Assets Control Regulations of the United States of America dated July 8, 1963. Efforts of the Department of Finance to obtain a licence from the Secretary of the Treasury of the United States to enable the Bank of America to make payment notwithstanding these Regulations have been unsuccessful, presumably because of substantial claims against Cuban assets by citizens of the United States.

336. *Canadian Overseas Telecommunication Corporation.* This Corporation was constituted in 1949 by the Canadian Overseas Telecommunication Corporation Act, *R.S., c. C-11*, to establish, maintain and operate external telecommunication services generally and to co-ordinate Canada's external telecommunication services with those of other nations. The head office is in Montreal, Que.

The Crown's equity in the Corporation was $86,836,000 at March 31, 1972, comprising advances of $40,011,000 and surplus of $46,825,000.

The capital requirements of the Corporation during the year were met from accumulated earnings and $2,304,000 was repaid on advances received in prior years. Additions to capital assets amounted to $12,813,000 and at March 31, 1972, the estimated cost of completing approved capital projects was $74,100,000 of which $38,400,000 relates to the year ending March 31, 1973.

During the year the Corporation paid $739,000 to partners in the Commonwealth Network for the period December 1, 1967, to December 31, 1970, following agreement between the partners to retroactively adjust, in terms of sterling, the terminal charges for telegraph, telex and telephone traffic in order to provide the partners with the same amount in local currency as before devaluation of sterling in 1967. A consequential reduction of $353,000 in income tax paid resulted in a net charge to surplus of $386,000.

The following is a summary of income and expense of the Corporation for the past two years giving effect to the retroactive adjustment of terminal charges applicable to 1970-71:

	Year ended March 31	
	1972	1971
Income—		
Telegraph, telephone, telex, circuit rentals, satellite, etc.	$ 36,817,000	$ 33,386,000
Expense—		
Salaries, wages and employee benefits	9,084,000	8,188,000
Depreciation	7,035,000	6,427,000
Rental of circuits, etc.	6,516,000	5,995,000
Maintenance and repairs—plant and equipment	2,664,000	3,160,000
Interest	2,108,000	2,277,000
Other	1,343,000	1,147,000
	28,750,000	27,194,000
Less:		
Estimated amount recoverable from Commonwealth Network	4,100,000	3,400,000
Portion of expense capitalized	1,018,000	1,221,000
	5,118,000	*4,621,000*
	23,632,000	22,573,000
Profit before income tax	13,185,000	10,813,000
Provision for income tax	6,300,000	5,560,000
Net income	$ 6,885,000	$ 5,253,000

The increase of $3,431,000 in income is largely accounted for by increases of $3,826,000 in telephone revenue and $765,000 in telex revenue, offset by decreases of $1,062,000 in circuit rental revenue and $299,000 in interest on investments.

Salaries, wages and employee benefits increased by $896,000 due mainly to higher salary rates. Depreciation increased by $608,000 largely due to additional charges of $520,000 arising from adjustments to the estimated useful life of certain equipment. The leasing of additional circuits resulted in the increased cost of $521,000 for rental of circuits, etc. The decrease of $496,000 in the maintenance and repairs of plant and equipment was due to fewer cable breaks.

337. *Canadian Patents and Development Limited.* This Company was incorporated in 1947 under the Canada Corporations Act, *R.S., c. C-32,* pursuant to section 17 of the National Research Council Act, *R.S., c. N-14.* The Company which is located in Ottawa makes available to industry the inventions developed by the Council, government departments, agencies, universities and other publicly supported institutions through licensing arrangements and development agreements.

At March 31, 1972, the Crown's equity in the Company was $791,000, comprising capital stock of $296,000 and surplus of $495,000. Unexpired patent rights for inventions and experimental equipment on loan to licencees having an original cost of approximately $900,000 and $174,000 respectively are each included in the accounts at a nominal value of $1.

The following is a summary of the results of the Company's operations for the past two years:

	Year ended March 31	
	1972	1971
Income—		
Royalties, licensing fees, etc.	$ 519,000	$ 481,000
Less: Portion payable to third parties	160,000	150,000
	359,000	331,000
Other	75,000	100,000
	434,000	431,000
Expense—		
Salaries	292,000	277,000
Patent attorneys' fees and other patenting costs	94,000	128,000
Rent	47,000	47,000
Development assistance	—	42,000
Promotion	19,000	17,000
Services provided by National Research Council of Canada	10,000	10,000
Other	21,000	25,000
	483,000	546,000
Excess of expense over income	$ 49,000	$ 115,000

The decrease of $34,000 in patent attorneys' fees and other patenting costs resulted from less patenting activity generally, as well as from more in-house work done by the Company. The development assistance program has been suspended.

338. *Canadian Saltfish Corporation.* This Corporation, established by the Saltfish Act, *R.S. (1st Supp.), c.37,* was constituted to improve the earnings of primary producers of cured saltfish by curing fish (of the cod family) and trading in and marketing cured fish and the by-products of fish curing. The Board of Directors is composed of a chairman, a president, one director for each participating province and not more than five other directors, each of whom is appointed by the Governor in Council to hold office for a term not exceeding five years. A director for a participating province is appointed on the recommendation of the Lieutenant Governor in Council of that province. The head office of the Corporation is in St. John's, Nfld.

Canada had no equity in the Corporation at March 31, 1972.

During the year other income amounting to $29,000, which was not related to dried saltfish, was set aside as a provision for research and development. In the previous year this income amounted to $19,000 and was included in the excess of income over expense from which payments were to be made to fishermen and producers.

A summary of the Corporation's income and expense for the past two years follows:

	Year ended March 31	
	1972	1971
Sales	$ 6,740,000	$ 6,627,000
Cost of sales	5,830,000	5,886,000
	910,000	741,000
Expense—		
Selling	120,000	
Administrative	213,000	
	333,000	239,000
Interest	41,000	66,000
Provision for market and exchange fluctuations	60,000	—
	434,000	305,000
Less: Government grant provided under section 16 of the Act	—	100,000
	434,000	205,000
	476,000	536,000
Other income—net	29,000	19,000
Less: Provision for research and development	29,000	—
Excess of income over expense from which payments will be made to fishermen and producers	$ 476,000	$ 555,000

An analysis of the Corporation's expense for the past two years follows:

	Year ended March 31	
	1972	1971
Salaries and employee benefits	$ 195,000	$ 131,000
Provision for market and exchange fluctuations	60,000	—
Interest	41,000	66,000
Rent	34,000	32,000
Travel	18,000	17,000
Telephone, telegrams and cables	17,000	9,000
Postage, printing and stationery	13,000	8,000
Market development	12,000	—
Depreciation	7,000	6,000
Amortization	7,000	6,000
Grant in lieu of taxes	5,000	3,000
Office services	5,000	1,000
Other	20,000	26,000
	$ 434,000	$ 305,000

The increase of $64,000 in salaries and employee benefits was largely attributable to the fact that 1970-71 was the first year of operations and the staff was not at full strength.

The provision of $60,000 for market and exchange fluctuations was made by the Board of Directors with respect to future sales.

339. *The Company of Young Canadians.* The Company was established by the Company of Young Canadians Act, *R.S., c. C-26,* to support, encourage and develop programs for social, economic and community development in Canada through voluntary service. The Company is under the administration of a Council consisting of not less than seven and not more than nine members appointed by the Governor in Council pursuant to the Act. The head office is in Ottawa.

A summary of the Company's income and expense for the past two years follows:

	Year ended March 31	
	1972	1971
Income—		
Payment received pursuant to Secretary of State Vote 70	$ 1,900,000	$ 1,900,000
Interest	36,000	39,000
	1,936,000	1,939,000
Expense—		
Volunteers' allowances and benefits	843,000	498,000
Staff salaries and benefits	575,000	429,000
Transportation and travel	138,000	102,000
Program support—including office expense	103,000	83,000
Recruitment, training and conferences	63,000	48,000
Communications	41,000	28,000
Services provided by individuals and firms	24,000	45,000
Purchase of motor vehicles, furniture and equipment	3,000	3,000
	1,790,000	1,236,000
Excess of income over expense	$ 146,000	$ 703,000

Services provided by individuals and firms include legal fees and expense amounting to $978, paid to defend a volunteer who was charged with an offence relating to an activity that was not within the scope of his contract with the Company. At March 31, 1972, field and head office staff numbered 60 and volunteers 205 compared with 45 and 136 at the previous year-end. At April 1, 1972, the Company had an accumulated surplus of $984,000 available for expenditure on approved projects.

340. *Crown Assets Disposal Corporation.* This Corporation was established in 1944 by the Surplus Crown Assets Act, *R.S., c. S-20.* With certain specified exceptions, the Corporation is responsible for the disposal of the surplus assets of government departments, Crown corporations and agencies. The Corporation has entered into agreements with Britain and the United States whereby it also disposes of surplus property held by them in Canada. The Corporation has its head office in Ottawa and regional sales offices in a number of cities across Canada.

The Corporation is authorized to retain 5% of the net proceeds of sales of lands and buildings, including interest received, and 10% of the net proceeds of all other sales, to meet its administrative and other expenses. A summary of the Corporation's income and expense for the year with comparable figures for the preceding year follows:

	Year ended March 31	
	1972	1971
Income—		
Portion retainable by the Corporation from sales and other income	$ 2,357,000	$ 1,754,000
Less: Transferred to deferred income	705,000	—
	1,652,000	1,754,000
Interest earned	3,000	—
	1,655,000	1,754,000
Expense—		
Salaries and employee benefits	1,061,000	1,001,000
Rent	75,000	76,000
Communications	67,000	61,000
Printing, stationery and office supplies	34,000	33,000
Office furniture, equipment, repairs and upkeep	26,000	27,000
Travel	26,000	30,000
Data processing	15,000	15,000
Other	13,000	20,000
	1,317,000	1,263,000
Excess of income over expense	$ 338,000	$ 491,000

The $603,000 increase in income was mainly due to an increase in commodity sales, partly offset by a decrease in sales of lands and buildings.

Deferred income of $705,000 represents 10% commission on the unpaid portion of the sales price of used military aircraft. This commission is to be retained from each instalment paid by the purchaser and is to be taken into income at that time.

Pursuant to section 71(4) of the Financial Administration Act, the Corporation was directed to pay to the Receiver General, as of March 31, 1970, and from time to time thereafter, but at intervals of not longer than six months, all of its surplus in excess of $300,000. Consequently, $338,000 has been paid to the Receiver General, leaving the surplus at the authorized limit.

The equity of the Crown in the Corporation was $19,277,000 at March 31, 1972, comprising $18,977,000 in the Agency Account and the surplus of $300,000 in the General Account.

The transactions in the Agency Account during the year, compared with the preceding year, are summarized as follows:

	Year ended March 31 1972	1971
Sales made on behalf of—		
Canada	$ 25,868,000	$ 21,915,000
Others	695,000	447,000
	26,563,000	22,362,000
Less: Direct costs relating to sales	48,000	57,000
	26,515,000	22,305,000
Interest and miscellaneous income	970,000	676,000
	27,485,000	22,981,000
Deduct:		
Portion retainable by the Corporation from net sales, etc	2,357,000	1,754,000
Remittances to the Receiver General	18,103,000	17,425,000
Other remittances	579,000	437,000
	21,039,000	19,616,000
Increase (decrease) in equity—		
Canada	6,397,000	3,400,000
Others	49,000	(35,000)
	$ 6,446,000	$ 3,365,000

The increase of $4,201,000 in sales comprised increases in commodity sales, $7,553,000, partly offset by decreases in sales of lands and buildings, $3,352,000.

It is the policy of the Corporation to withhold its full commission from the first payments received. However, an exception was made in the case of the Corporation's commission on sales of surplus military aircraft totalling $8,170,000. Instead of retaining 10% of the sales value, $817,000, out of the initial payment of $1,117,000 and remitting $300,000 to the Receiver General for credit to the National Defence Surplus Crown Assets Account, the Corporation retained 10% of the down payment only, $111,700, and remitted $1,005,300 to the Receiver General for credit to the Account. The difference of $705,300 was treated by the Corporation as deferred income.

The Corporation already held its maximum permissible surplus of $300,000 and had its policy been followed with respect to the commission on this sale, the amount of its surplus in excess of $300,000 transferred to the Consolidated Revenue Fund as revenue in 1971-72 would have been greater by $705,300.

The effect of this deviation from policy was to divert without authority $705,300 from the 1971-72 revenues of Canada to the National Defence Surplus Crown Assets Account where it was available to that Department for spending with the authority of the Treasury Board. Furthermore, by this deviation from policy the Corporation assumed a portion of any risk there may be of the full purchase price not being paid.

For these reasons, our report dated May 18, 1972, to the Minister of Supply and Services on our examination of the accounts and financial statements of the Corporation for the year ended March 31, 1972, was qualified. (See also paragraph 79 of this Report.)

341. *Defence Construction (1951) Limited.* This Company which is located in Ottawa was incorporated in 1951 under the Canada Corporations Act, *R.S., c. C-32,* pursuant to the authority in section 6 of the Defence Production Act, *R.S., c. D-2.*

The Company is responsible for awarding and supervising contracts for defence construction projects and may assist civilian agencies of the Government. Funds to finance projects are provided by the departments concerned, or by other governments for defence projects undertaken in Canada on their behalf.

Expenditure on construction projects approved by the Company for payment by the departments or agencies concerned increased from $37 million in 1970-71 to $56 million in 1971-72.

The following is a summary of expense and income for the past two years:

	Year ended March 31	
	1972	1971
Expense—		
Salaries and living allowances	$ 3,435,000	$ 3,723,000
Employee benefits	260,000	292,000
Travel and removal	205,000	211,000
Office accommodation	90,000	91,000
Telephone and telegraph	63,000	58,000
Printing, stationery and office	39,000	30,000
Furniture and fixtures	35,000	7,000
Professional services	33,000	34,000
Advertising	31,000	28,000
Other	76,000	91,000
	4,267,000	4,565,000
Income—		
Recovery of costs of operating and maintaining Regional Emergency Government Headquarters	1,299,000	1,949,000
Reimbursement for engineering and administrative services, etc.	249,000	385,000
	1,548,000	2,334,000
Net expense	$ 2,719,000	$ 2,231,000
Net expense provided for by—		
National Defence Vote 35	$ 2,702,000	$ 2,195,000
Government departments which provided major services without charge	17,000	36,000
	$ 2,719,000	$ 2,231,000

The increase of $488,000 in net expense is due to increased activity on defence construction projects and includes an increase of $399,000 in salary costs of which $285,000 is attributable to 29 additional employees.

The amount of $1,299,000 shown as recovery of costs of operating and maintaining Regional Emergency Government Headquarters in 1971-72 is for a period of six months ended September 30, 1971, the date from which this responsibility was transferred from the Company to the Department of National Defence.

342. *Eldorado Aviation Limited.* This Company was incorporated in 1953 under the Canada Corporations Act, *R.S., c. C-32,* and is a wholly-owned subsidiary of Eldorado Nuclear Limited. Operating from headquarters in Edmonton, it provides air transportation services mainly for its parent company and Northern Transportation Company Limited, another wholly-owned subsidiary of Eldorado Nuclear Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Nuclear Limited in the Company at December 31, 1971, comprised capital stock of $28,000 and surplus of $257,000.

The following is a summary of the net expense of the Company for the past two years:

	Year ended December 31	
	1971	1970
Salaries, wages and employee benefits	$ 465,000	$ 451,000
Repairs	175,000	164,000
Supplies	159,000	176,000
Insurance	48,000	38,000
Hangar expense	45,000	47,000
Depreciation	19,000	30,000
Other	29,000	30,000
	940,000	936,000
Miscellaneous income	25,000	34,000
Net expense	$ 915,000	$ 902,000

The net expense for the year was recovered by the Company from Eldorado Nuclear Limited and from Northern Transportation Company Limited in the amounts of $672,000 and $243,000.

343. *Eldorado Nuclear Limited.* This Company was incorporated in 1945 under the Canada Corporations Act, *R.S., c. C-32,* following expropriation in 1944 of the shares of a privately-owned company. The principal functions of the Company are to produce, refine, procure and sell uranium and allied products and to produce zirconium metal which is used in nuclear power plants. The head office of the Company and the Research and Development Division are in Ottawa, the Beaverlodge mine is near Uranium City, Sask., and the refinery, the zirconium plant and the administrative offices are in Port Hope, Ont.

The equity of the Crown in the Company at December 31, 1971, amounted to $79,409,000 comprising capital stock of $6,586,000, surplus of $39,468,000 and loans of $33,355,000, including accrued interest of $2,388,000. Loans totalling $5,516,000 are due to be repaid within one year and the balance of $27,839,000 by December 31, 1975.

The following is a summary of income and expense for the past two years:

	Year ended December 31	
	1971	1970
Income—		
Sales of products and services	$ 11,095,000	$ 5,637,000
Expense—		
Cost of products and services sold	10,886,000	6,181,000
Scientific research	729,000	623,000
Marketing	398,000	267,000
Administration	362,000	332,000
Exploration	67,000	62,000
	12,442,000	7,465,000
Net loss from operations	1,347,000	1,828,000
Interest and other non-operating expense (net)	982,000	781,000
Net loss	$ 2,329,000	$ 2,609,000

The provision for depreciation in 1971 amounted to $1,821,000 and in 1970 to $1,005,000.

Income from sales of products and services increased by $5,458,000, or approximately 97% over the previous year. The major items contributing to this were increased revenue from the conversion of concentrates to uranium hexafluoride, $2,429,000, sales of concentrates, $1,401,000, sales of natural uranium, $1,154,000, and sales of enriched uranium, $338,000.

The increase of $201,000 in interest and other non-operating expense (net) was due mainly to an increase of $536,000 in interest on loans offset by an increase of $282,000 in income arising from the ore procurement program.

The Governor in Council granted authority in 1963 and 1965 for the entry into contracts between Her Majesty the Queen in right of Canada represented by the Company and certain other uranium producers for the purchase of uranium concentrates for stockpiling by Canada. At December 31, 1971, the Company was the custodian of uranium concentrates thus acquired at a total cost of $101,183,000. Funds for the acquisition of these concentrates were provided for by parliamentary appropriations and accordingly their cost was not included in the accounts of the Company.

344. *Export Development Corporation.* This Corporation was established on October 1, 1969, by the Export Development Act, *R.S., c. E-18,* as successor to the Export Credits Insurance Corporation, to facilitate and develop export trade by the provision of insurance, guarantees, loans and other financial facilities. The head office is in Ottawa and there are branches in Montreal, Toronto and Vancouver.

Section 27 of the Act provides that, where the Board of Directors is of the opinion that a proposed contract of insurance will impose upon the Corporation a liability for a term or in an amount in excess of that which the Corporation would normally undertake, the Governor in Council may authorize the Corporation to enter into the proposed contract. In the event of a loss on such a contract or on a similar contract previously entered into under section 21 of the Export Credits Insurance Act, *R.S. 1952, c.105,* all moneys required to discharge the liability are to be paid from the Consolidated Revenue Fund. The Corporation must not assume liabilities in excess of a total of $500 million under such contracts.

To further promote export trade, section 29 of the Act permits the Corporation to provide long-term financing for capital projects of substantial value. However, such financing under this section or section 21A of the Export Credits Insurance Act is not to exceed a total of $850 million. In addition, section 31 of the Act provides that where the Board is of the opinion that a proposed long-term financing agreement is for a term or in an amount in excess of that which the Corporation would normally undertake and the Minister is of the opinion that the proposed agreement is in the national interest, the Governor in Council may authorize the Corporation to enter into the agreement. All moneys required with respect to contracts authorized by the Governor in Council are to be provided out of the Consolidated Revenue Fund but must not at any time exceed a total of $450 million.

In addition, to promote economic advantage to Canada or to contribute to the economic growth and development of other countries, the Corporation, under sections 34 to 37 of the Act, is permitted to insure Canadian investors against certain risks of loss on investments abroad. Foreign investment insurance is only provided on approval of the Governor in Council and any moneys required to discharge the liabilities are payable to the Corporation out of the Consolidated Revenue Fund. The Corporation must not have liabilities outstanding at any time in excess of $150 million.

The Crown's equity in the Corporation at December 31, 1971, was $448,332,000 consisting of share capital of $20,000,000, capital surplus of $20,000,000, an underwriting reserve of $6,000,000, a reserve for losses of $3,011,000, retained earnings of $11,294,000, and loans and accrued interest totalling $388,027,000.

The underwriting reserve, established to provide for losses on contracts of insurance entered into on the Corporation's own account, remained unchanged at $6

million. At December 31, 1971, the reserve amounted to 2% of the Corporation's liabilities under these contracts compared with 2.3% of the corresponding liabilities at the end of the preceding year and 2.8% at the end of 1969.

The following is a summary of operations for the past two years:

	Year ended December 31	
	1971	1970
Income—		
Long-term export financing	$ 3,065,000	$ 1,706,000
Export credits insurance	2,224,000	1,825,000
Foreign investment insurance	32,000	4,000
	5,321,000	3,535,000
Expense—		
Salaries and staff costs	1,705,000	1,302,000
General administration	284,000	220,000
Accommodation and occupancy improvements	266,000	372,000
Travel and public relations	156,000	123,000
	2,411,000	2,017,000
Operating income	2,910,000	1,518,000
Interest on investments	3,542,000	3,164,000
	6,452,000	4,682,000
Policyholders' claims—		
Payments	3,274,000	610,000
Recoveries	1,286,000	907,000
	1,988,000	(297,000)
Canada's share of earnings	60,000	150,000
Foreign exchange loss	—	42,000
	2,048,000	(105,000)
Net income	$ 4,404,000	$ 4,787,000

Canada's share of earnings represents the excess of revenue over expense in respect of contracts entered into at the risk of the Consolidated Revenue Fund.

The following statistics show the extent of the operations of the Corporation for the past two years:

	Year ended December 31	
	1971	1970
Export sales insured at the risk of the—		
Corporation:		
Policies written	$ 391,999,000	$ 385,104,000
Policies in force at year-end	295,529,000	257,502,000
Government:		
Policies written	89,413,000	176,456,000
Policies in force at year-end	306,884,000	243,198,000

	Year ended December 31 1971	1970
Export financing agreements at the risk of the—		
Corporation:		
Agreements signed	$ 240,035,000	$ 96,071,000
Disbursements made	109,404,000	70,714,000
Principal repayments	24,055,000	27,852,000
Principal outstanding at year-end	374,692,000	289,800,000
Government:		
Agreements signed	100,000,000	4,000,000
Disbursements made	10,135,000	—
Principal repayments	—	—
Principal outstanding at year-end	10,135,000	—
Foreign investment insurance at the risk of the Government:		
Policies written	3,601,000	—
Policies in force at year-end	3,061,000	—

The following is a summary of transactions in respect of claims paid to policyholders:

Nature of claim	Outstanding Jan. 1, 1971	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1971
Insolvency	$ 219,000	$ 2,482,000	$ 216,000	$ 8,000	$ 2,477,000
Default	1,015,000	444,000	410,000	203,000	846,000
Exchange transfer	824,000	348,000	660,000	49,000	463,000
Other	14,000	—	—	14,000	—
	$ 2,072,000	$ 3,274,000	$ 1,286,000	$ 274,000	$ 3,786,000

The Corporation anticipates substantial recoveries from the outstanding claims of $3,786,000 and the amounts recovered will be recorded as income in the year in which the recoveries are effected.

Subsequent to the year-end the Corporation participated in a sale of Crown-owned aircraft to a foreign country. This transaction is commented on in paragraph 74 of this Report.

345. *Farm Credit Corporation.* This Corporation was established by the Farm Credit Act, *R.S., c. F-2,* to make, administer and supervise long-term mortgage loans to farmers. The Corporation also administers the Farm Syndicates Credit Act, *R.S., c. F-4,* which authorizes the making of loans to qualified syndicates of three or more farmers for the purchase of machinery, buildings or land for their co-operative use. The head office of the Corporation is in Ottawa and there are seven branch and 115 field offices including the offices of 30 district supervisors.

The Crown's equity in the Corporation at March 31, 1972, was $1,236,560,000 comprising: capital, $46,200,000; loans from Canada, $1,160,990,000 (of which $6,668,000 was in respect of the Farm Syndicates Credit Act); accrued interest on

loans from Canada, $28,250,000; a reserve for losses under the Farm Credit Act, $1,095,000; and retained earnings from operations under the Farm Syndicates Credit Act, $25,000.

During the year, 3,828 loans amounting to $109,669,000 were made under the Farm Credit Act compared with 4,100 loans totalling $116,548,000 in the previous year. Repayments of principal amounted to $81,240,000. Loans outstanding at March 31, 1972, including accrued interest amounted to $1,233,598,000 compared with $1,202,547,000 at March 31, 1971.

The following is a summary of the income and expense of the Corporation under the Farm Credit Act for the past two years:

	Year ended March 31	
	1972	1971
Income—		
Interest earnings	$ 69,097,000	$ 64,796,000
Deduct: Interest on loans from Canada	70,729,000	66,862,000
	(1,632,000)	(2,066,000)
Appraisal, supervision and legal fees, etc.	671,000	845,000
	(961,000)	(1,221,000)
Expense—		
Salaries and employee benefits	6,434,000	6,022,000
Travel	524,000	485,000
Office accommodation	506,000	489,000
Postage, express, telephone and telegraph	138,000	133,000
Rental and maintenance of office equipment	122,000	109,000
Printing, stationery and office supplies	72,000	71,000
Depreciation	41,000	46,000
Other	72,000	62,000
	7,909,000	7,417,000
Less: Portion allocated to operations under the Farm Syndicates Credit Act	42,000	35,000
	7,867,000	7,382,000
Net operating loss provided for by Agriculture Vote 45	$ 8,828,000	$ 8,603,000

With respect to operations under the Farm Syndicates Credit Act, the Corporation had income of $55,000 from earned interest (net) and service charges, and allocated expenses of $42,000 to these operations. The net profit of $13,000 was transferred to retained earnings which increased the balance in that account to $25,000 at March 31, 1972. Since the Act came into force on December 11, 1964, the Corporation has made 1,004 loans totalling $10,539,000 repayable over a term not exceeding fifteen years. Loans outstanding at March 31, 1972, totalled $6,804,000 including accrued interest. The interest rate on new loans was reduced from 7% to 6 3/4% effective October 1, 1971, and to 6 1/4% effective April 1, 1972.

Section 15 of the Farm Credit Act requires the Corporation to establish a reserve out of which may be paid "any losses sustained by the Corporation in the conduct of its business". The section further provides that the Corporation shall credit its net earnings each year to this reserve until the amount of the reserve equals the capital of the Corporation. At March 31, 1972, the capital of the Corporation amounted to $46,200,000 whereas the reserve for losses was only $1,095,000. In our report to the Minister of Agriculture under section 77 of the Financial Administration Act on the results of our examination of the accounts of the Corporation, we referred to the inadequacy of the former statutory lending rate of 5% on loans to farmers and the continuing deficiency in the reserve for losses.

The statutory lending rate of 5% was abolished with effect from November 15, 1968, and the interest rate on loans to farmers is now prescribed for each interest period in accordance with the Farm Credit Act Interest Rates Regulations. On October 1, 1971, the rate was reduced from 7 3/4% to 7 1/2% and on April 1, 1972, it was further reduced to 7%. However, these rates were applicable only to new loans and annual losses will continue with respect to loans made at the former statutory rate so that for a considerable time there will be no earnings to credit to the reserve for losses. Since 1963 the annual losses of the Corporation resulting from the low statutory interest rate have been recovered from annual parliamentary appropriations. This policy will prevent further depletion of the reserve by such losses, but does not provide for the building up of the reserve to an amount equivalent to the capital of the Corporation as is contemplated by the Farm Credit Act.

346. *Freshwater Fish Marketing Corporation.* This Corporation, established by the Freshwater Fish Marketing Act, *R.S., c. F-13*, was constituted to market and trade in fish, fish products and fish by-products in and out of Canada with the object of increasing returns to fishermen. The Board of Directors is composed of a chairman, a president, one director for each participating province and four other directors, each of whom is appointed by the Governor in Council to hold office for a term not exceeding five years. A director for a participating province is appointed on the recommendation of the Lieutenant Governor in Council of that province. The head office of the Corporation is in Winnipeg, Man.

At April 30, 1971, the Crown's equity in the Corporation was $4,600,000 in the form of loans.

The following is a summary of the income and expense of the Corporation for the past two years:

	Year ended April 30	
	1971	1970
Sales	$ 13,276,000	$ 14,398,000
Cost of sales	12,399,000	13,010,000
	877,000	1,388,000

	Year ended April 30	
	1971	1970
Expense—		
Salaries and employee benefits	$ 340,000	$ 250,000
Interest	228,000	120,000
Travel	68,000	52,000
Professional services	44,000	54,000
Communications	32,000	27,000
Programming and data processing	31,000	5,000
Publicity	31,000	8,000
Office supplies	22,000	27,000
Accommodation	15,000	14,000
Provision for doubtful accounts	12,000	10,000
Other	49,000	92,000
	872,000	659,000
Less: Government grant provided under section 16 of the Act	—	100,000
	872,000	559,000
Excess of income over expense	$ 5,000	$ 829,000

The decrease of $1,122,000 in sales was attributed largely to the publicity given to the mercury pollution problem. The increase of $90,000 in salaries and employee benefits resulted from an increase in both staff and salary rates, and the increase of $108,000 in interest resulted from the increase during the year of $2,700,000 in loans from Canada which, at April 30, 1971, amounted to $4,600,000.

The decline in the excess of income over expense that occurred in 1970-71 has continued into the Corporation's next fiscal year, the financial statements prepared from such records and information as were available indicating an excess of expense over income for the year ended April 30, 1972, of $1,323,700.

Our examinations of the records of the Corporation for the years ended April 30, 1970, and April 30, 1971, disclosed inadequacies and unsatisfactory conditions in the accounting procedures and the system of internal control which were regularly drawn to the attention of management but which did not materially affect the correctness of the accounts. However, the condition of the records and internal control during the year ended April 30, 1972, deteriorated to such an extent that the correctness of the accounts was affected and it could not be determined that all assets and liabilities had been taken into account, that all revenue and expenditure had been recorded, and that the valuation placed on the inventories at the year-end was correct. Consequently, the opinion required of the Auditor General under section 77 of the Financial Administration Act could not be given. This situation has been discussed at length with the Corporation which has now taken steps to correct the unsatisfactory conditions.

347. *The National Battlefields Commission.* This Commission was established by The National Battlefields at Quebec Act, *1908, c.57,* to acquire and preserve the

historic battlefields at Quebec. The Commission consists of nine members, seven of whom are appointed by the Governor in Council and one each by the Provinces of Ontario and Quebec.

At March 31, 1972, the proprietary equity of the Crown in the Commission was $1,850,000 comprising capital assets at cost of $1,826,000 and working capital of $24,000.

The Commission's approved budget for 1971-72 forecast operating expenditures of $294,000 and capital expenditures of $110,000, of which $4,000 was to be met from revenue and the balance of $400,000 from Indian Affairs and Northern Development Vote 70. However, the amount provided by the Vote was applied $394,000 to operations and $6,000 to capital without ministerial approval. In addition capital outlays of $173,000 on Commission property were made by the Department of Indian Affairs and Northern Development and charged to Indian Affairs and Northern Development Vote 65, thereby supplementing the amount provided by Parliament for purposes of The National Battlefields at Quebec Act. (See also paragraph 99 of this Report.)

The following is a summary of the income and expense of the Commission for the past two years:

	Year ended March 31	
	1972	1971
Income—		
Payment received pursuantto Indian Affairs and NorthernDevelopment Vote 70 (Vote 75in 1970-71)	$ 400,000	$ 289,000
Payments made on behalf of theCommission from IndianAffairs and Northern-Development Vote 75 of 1970-71	11,000	—
Miscellaneous	6,000	4,000
	417,000	293,000
Expense—		
Salaries, wages and employee benefits	292,000	186,000
Policing services	45,000	32,000
Repairs of roads, driveways,buildings and equipment	24,000	16,000
Light, heat, power, gasoline and oil	18,000	18,000
Operating supplies and nursery stock	9,000	9,000
Legal services	5,000	10,000
Other	10,000	13,000
Capital outlays, including prior year's adjustment of $11,000	190,000	6,000
	593,000	290,000
Excess of expense over income	176,000	(3,000)
Less: Portion of excess of expense over income borne by Indian Affairs and Northern Development Vote 65	173,000	—
Portion of excess of expense over income borne by the Commission	$ 3,000	$ (3,000)

The increase of $106,000 in salaries, wages and employee benefits was for the most part due to additional payments, including retroactive portions applicable to

1970-71, arising from collective bargaining agreements finalized during the year. This was also the main reason for the operating budget having to be revised since these payments were not provided for in the approved budget for 1971-72. The capital outlays included $109,000 for a new drainage and sewage system, $51,000 for building construction and $24,000 for electric lighting.

Funds contributed by provincial governments, municipalities and others, which may be used only for the acquisition of land with parliamentary approval, amounted with interest to $43,000 at March 31, 1972. There have been no transactions since 1938.

348. *National Capital Commission.* This Commission was established by the National Capital Act, *R.S., c. N-3,* to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission formed in 1899. The objects of the Commission are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance". The Commission consists of 20 members from across Canada appointed by the Governor in Council for terms not exceeding four years.

Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites.

At March 31, 1972, the Crown's equity in the Commission was $212,358,000 represented by capital assets at cost, $196,657,000, and working capital, $15,701,000.

The Commission's activities are financed by annual parliamentary appropriations, by loans from Canada for the acquisition of property, by revenues from rentals, etc., and by sales of land acquired from the National Capital Fund. These sources provided funds totalling $48,310,000 in 1971-72, bringing to $68,554,000 funds available to the Commission as follows:

Balance in National Capital Fund, April 1, 1971	$ 16,943,000
Unexpended prior year loans from Canada	3,301,000
	20,244,000
Parliamentary appropriation to National Capital Fund	33,500,000
Parliamentary appropriation for operating expenditures	12,346,000
Revenues	2,028,000
Sales of land acquired from the National Capital Fund	436,000
	48,310,000
	$ 68,554,000

Expenditure was $53,386,000 leaving a balance available for future expenditure of $15,168,000 at March 31, 1972, comprising $13,753,000 in the National Capital Fund and $1,591,000 in unexpended loans from Canada, less $176,000 representing a portion of the net operating expenditure to be recovered from a future parliamentary appropriation. At March 31, 1972, the Commission also had parliamentary authority to borrow a further $3,000,000 for property acquisitions in the Greenbelt, being the difference between the total amount of $43,300,000 authorized by Parliament for this purpose and the $40,300,000 borrowed by the Commission. The following is a summary of expenditure for the past two years:

	Year ended March 31	
	1972	1971
Operating expenditure—		
Operation and maintenance	$ 5,161,000	$ 4,743,000
Administration	4,347,000	3,762,000
Interest on loans	3,426,000	3,369,000
Contributions, assistance to municipalities, maintenance and rehabilitation projects, etc.	4,872,000	2,744,000
Grants in lieu of taxes	1,292,000	1,070,000
	19,098,000	15,688,000
Capital expenditure—		
Property acquisitions	27,284,000	3,608,000
Parkways	4,155,000	1,349,000
Improvements to lands and buildings	742,000	681,000
Operating and office equipment	324,000	410,000
Other, including parks	1,783,000	664,000
	34,288,000	6,712,000
	$ 53,386,000	$ 22,400,000

The cost of contributions, assistance to municipalities, maintenance and rehabilitation projects, etc., increased by $2,128,000 mainly as a result of an increase of $2,504,000 in the contributions towards the cost of the Portage Bridge and an increase of $629,000 in the contributions towards the cost of sewer and water mains in Hull, offset in part by a decrease of $769,000 in contributions towards the cost of a filtration plant in Hull.

The increase of $23,676,000 in expenditure for property acquisitions was accounted for by the purchase of part of the E.B. Eddy Company property for $23,995,000, an increase of $502,000 in property purchases for parks in the Hull area and an increase of $439,000 in property purchases around Colonel By and Sussex Drives, offset in part by reductions in property purchases of $762,000 in downtown Hull, $217,000 for the Voyageur Parkway and $147,000 in the Greenbelt area.

Expenditure on parkways increased by $2,806,000 primarily due to the continuing construction of the Airport Parkway.

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Increased expenditure of $337,000 on renovations and changes to Moussette Park together with increased expenditure of $725,000 on bicycle paths, skating rinks, gardens and toboggan slides comprised the major portion of the increase of $1,119,000 in other capital expenditures.

In August 1969 the Commission received a directive from the Treasury Board with respect to loans for the purchase of property other than in the Greenbelt under which, starting in 1970-71, loans would be provided only to acquire, improve and service properties which are to be sold to other users, thereby enabling the Commission to repay the loans. The Commission interprets this directive as referring to sales to government departments as well as to outsiders. During the year property acquisition financed by loans totalled $1,710,000 compared with $2,567,000 in the previous year. Inasmuch as, to the best of our knowledge, $1,695,000 of this land is to be used for government purposes, we are of the opinion that its cost should have been charged to expenditure.

349. *National Harbours Board.* This Board, which has its head office in Ottawa, was established in 1936 by the National Harbours Board Act, *R.S., c. N-8,* and has jurisdiction over the harbours of St. John's, Halifax, Saint John, Belledune, Chicoutimi, Quebec, Trois-Rivières, Montreal (including the Jacques Cartier and Champlain Bridges), Churchill, Vancouver and, since March 23, 1972, Prince Rupert, together with grain elevators at Prescott and Port Colborne. The Board consists of a chairman, a vice-chairman and two other members appointed by the Governor in Council.

In previous years we have commented on inadequacies and unsatisfactory conditions in the Board's administrative, accounting and internal control procedures and practices (paragraphs 130 to 138, and paragraph 308 in our 1971 Report). These conditions continued to exist during the year ended December 31, 1971, and as a consequence we were unable to express an opinion, as required by section 77 of the Financial Administration Act, on the validity of either the accounts or the financial statements of the Board for the year then ended. This situation has been discussed at length with the Board which is taking steps to correct it.

The Crown's equity in the Board at December 31, 1971, was $537,375,000 comprising: the cost of assets transferred to the Board, $86,562,000; loans and advances, $409,150,000; interest in arrears on loans and advances, $165,442,000; reserves, $11,556,000; less an accumulated deficit of $135,335,000.

The Board's indebtedness to Canada for loans and advances decreased by $1,003,000 during the year while interest in arrears increased by $13,858,000. The loans and advances outstanding and the arrears of interest thereon at December 31, for the past 11 years are:

December 31	Loans and advances	Interest in arrears on loans and advances
1961	$ 290,937,000	$ 64,786,000
1962	308,882,000	71,290,000
1963	316,787,000	78,559,000
1964	320,094,000	86,204,000
1965	323,212,000	93,285,000
1966	343,788,000	103,203,000
1967	365,643,000	114,561,000
1968	394,524,000	127,211,000
1969	403,439,000	140,212,000
1970	410,153,000	151,584,000
1971	409,150,000	165,442,000

In previous Reports we have observed that there was little prospect of the Board being able to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In February 1967 the Public Accounts Committee, in its Twelfth Report 1966-67, commented as follows (see Appendix 1, item 24):

> The Committee is concerned that there appears to be little prospect of the Board being in a position to meet its principal and interest obligations and recommends that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter will be dealt with by the Department of Finance and the Board within the next twelve months.

The financial structure of the Board was not reconstituted as the proposals made by the Department of Finance were not acceptable to the Board. On May 13, 1971, the Public Accounts Committee discussed the matter with officers of the Board and the Canadian Marine Transportation Administration but no further recommendation has been made by the Committee.

Until revocation of tolls on June 1, 1962, the Jacques Cartier Bridge was operated under a tripartite agreement which required both the City of Montreal and the Province of Quebec to pay to the Board one-third of any annual deficit arising from the operation of the Bridge to a maximum of $150,000 each. Since 1944 the Province has refused to make the required contributions and at the end of 1949 its accumulated indebtedness without interest amounted to $744,000. The accounts of the Board continue to show this amount as due from the Province. From 1950 until revocation of tolls the Bridge did not incur an operating deficit. Prior to September 1966 the Board was unable to institute legal proceedings against the Province without first obtaining a fiat from the Provincial Attorney General. In 1967 the Board resubmitted its claim to the Province. In the same year the Board submitted the problem to a special committee of the Treasury Board Advisory Committee on Real Property but no solution was forthcoming. In August 1970 the Board reported to the Federal-Provincial Relations Secretariat of the Privy Council Office on

several other problems in the Montreal-Longueuil area of Quebec but made no specific reference to this problem. (See also paragraph 65 of this Report.)

The following is a summary of the operations of the National Harbours Board as reported by the Board for 1971 together with comparable figures for 1970:

	Year ended December 31	
	1971	1970
Income—		
Berthing facilities	$ 6,096,000	$ 5,439,000
Shore facilities	33,974,000	32,059,000
Support services	2,886,000	2,443,000
Bridges	2,874,000	2,714,000
	45,830,000	42,655,000
Expense—		
Operation and maintenance:		
Berthing facilities	1,592,000	1,685,000
Shore facilities	10,973,000	9,936,000
Support services	9,688,000	8,082,000
Bridges	2,043,000	1,930,000
	24,296,000	*21,633,000*
Depreciation	8,238,000	7,903,000
Grants in lieu of municipal taxes	7,418,000	6,571,000
Administration:		
Salaries of Board Members and Executive Officers	93,000	106,000
Other salaries	3,097,000	2,789,000
Contributions to employee pension plans	189,000	166,000
Office expense	932,000	1,011,000
Miscellaneous	922,000	657,000
	5,233,000	*4,729,000*
	45,185,000	40,836,000
Excess of income over expense	645,000	1,819,000
Interest expense—		
Interest on loans and advances from Canada	15,791,000	15,640,000
Less: Interest received on investments	4,432,000	5,413,000
	11,359,000	10,227,000
Deficit for the year	$ 10,714,000	$ 8,408,000

The increase in income from shore facilities was mainly attributable to significant increases in general cargo, particularly containerized cargo.

The decrease in interest received on investments was due to lower interest rates and a reduction in reserve fund investments.

The increases in shore facilities and support services expenses mainly arose from higher rates of salaries and wages being paid.

Paragraphs 154 to 162 of this Report deal with several matters noted in the course of our examination of the financial transactions of the Board.

350. *Northern Canada Power Commission.* This Commission, established in 1948 by the Northern Canada Power Commission Act, *R.S., c. N-21*, consists of three members appointed by the Governor in Council. The objects of the Commission are to construct and operate electric power plants and other public utilities and to supply power and utilities to users in the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. The Commission, with its head office in Ottawa, operates thirty-three power plants including four stand-by plants, five heating plants, six sewerage systems and six water systems. The Commission also acts as agent for Canada in respect of loans of $219,858,000 made to provincial power commissions under the Atlantic Provinces Power Development Act, *R.S., c. A-17.*

The Crown's equity in the Commission at March 31, 1972, comprised:

Advances including interest	$ 52,732,000
Contributed surplus—	
Central heating, water and sewerage, and fire alarm systems financed by parliamentary appropriations	10,438,000
Capital assets formerly operated by the Government of the Northwest Territories and the Department of Transport	2,888,000
	13,326,000
Retained earnings	5,021,000
	$ 71,079,000

The following is a summary of the income and expense of the Commission for the past two years:

	Year ended March 31	
	1972	1971
Income—		
Sale of power	$ 9,014,000	$ 7,815,000
Sale of heat	1,585,000	1,273,000
Income arising from construction, maintenance and operation of facilities for government departments and others	1,482,000	1,691,000
Miscellaneous	335,000	334,000
	12,416,000	11,113,000
Expense—		
Operation and maintenance	6,869,000	6,876,000
Interest on advances from Canada	2,834,000	2,416,000
Depreciation	1,323,000	1,062,000
Administration	1,009,000	678,000
	12,035,000	11,032,000
Net income before extraordinary items	381,000	81,000
Extraordinary items	—	510,000
Net income (loss)	$ 381,000	$ (429,000)

The increase of $1,199,000 in income from the sale of power was due mainly to increased demand at Frobisher Bay, Yellowknife, Inuvik, Cambridge Bay and Fort Smith in the Northwest Territories and to the operation of eleven power plants transferred from the Government of the Northwest Territories.

The increase of $312,000 in the sale of heat was largely attributable to increased demand to supply new housing, school and commercial premises at Frobisher Bay and increased central heating rates at Moose Factory, Ont.

The decrease of $209,000 in income arising from construction, maintenance and operation of facilities for government departments and others was due mainly to reduced construction work at Inuvik and Frobisher Bay.

The increase of $331,000 in administration expense was due mainly to the setting up of regional offices at Whitehorse, Y.T., and Yellowknife, N.W.T., during the year together with an increase in the number of employees at head office. The latter increase was largely attributable to the significant increase in the number of power plants operated.

351. *Northern Transportation Company Limited and subsidiary company.* Northern Transportation Company Limited, a wholly-owned subsidiary of Eldorado Nuclear Limited, was incorporated in 1947 under the provisions of the Canada Corporations Act, *R.S., c. C-32*, to take over the business of a predecessor company whose shares had been acquired when the capital stock of a privately-owned company was expropriated by the Crown in 1944. In 1965 the Company acquired the capital stock of Yellowknife Transportation Company Limited whose operations have been integrated with those of the parent.

The Company is empowered to carry on a general transportation business by land and water throughout Canada and elsewhere, but activities have been almost wholly confined to the Mackenzie River system and the Western Arctic. The head office of the Company is in Ottawa and administrative headquarters are in Edmonton.

The equity of Eldorado Nuclear Limited in the Company at December 31, 1971, was $7,250,000, comprising capital stock of $152,000, a reserve for insurance of $700,000, contributed surplus of $1,003,000, and retained earnings of $5,395,000.

The reserve for insurance is fully funded in short-term deposits. Its purpose is to provide for the replacement of any assets destroyed by fire, explosion or other catastrophe, and the amount of the reserve, $700,000, is related to the maximum probable loss of assets other than large Arctic vessels. These vessels were formerly commercially insured for $6,180,000, but by a decision of the Board of Directors taken in May 1971, the policy of insuring Arctic vessels was reversed and insurance is not now carried.

In the fiscal years 1968-69 to 1971-72 the Company was authorized to borrow an aggregate amount of $23,100,000, subject to certain terms and conditions prescribed by the Governor in Council, to finance the acquisition of transportation facilities for use on the Mackenzie River and Central Arctic coast. Of this amount $21,100,000 has been borrowed, $5,250,000 has been repaid and the remainder of $15,850,000 is repayable by October 15, 1976. Principal and interest totalling $2,723,000 is payable within one year.

The following is a summary of the results of the Company's operations for the past two years:

	Year ended December 31	
	1971	1970
Income—		
Freight	$ 7,754,000	$ 8,515,000
Expense—		
Operation and maintenance:		
Salaries and wages	2,951,000	3,037,000
Depreciation	2,208,000	1,947,000
Repairs and maintenance	865,000	1,227,000
Fuels and lubricants	556,000	555,000
Messing	144,000	194,000
Other	479,000	598,000
	7,203,000	*7,558,000*
Administration	691,000	592,000
	7,894,000	8,150,000
Loss (net income) from operations	140,000	(365,000)
Miscellaneous income	78,000	110,000
	62,000	(475,000)
Interest on loans from Canada	1,160,000	1,019,000
Net loss	$ 1,222,000	$ 544,000

Despite the fact that the tonnage handled was about 1% higher than in 1970 there was a decline in revenue of about 9% due to a further reduction in long-haul freight for oil exploration in northern Canada and an absence of freight to the Prudhoe Bay area of Alaska.

352. *Polymer Corporation Limited and subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Canada Corporations Act, *R.S., c. C-32,* pursuant to the provisions of section 6 of the Department of Munitions and Supply Act, *1939, c.3,* for the purpose of producing synthetic rubbers and chemicals. To enable the Corporation to become more diversified, its purposes were extended by supplementary letters patent issued in May 1970 to include other products and services. The head office of the Corporation is in Sarnia, Ont.

The Crown's equity in Polymer Corporation Limited and its subsidiary companies at December 31, 1971, amounted to $117,801,000 comprising capital stock of $30,000,000 and retained earnings of $87,801,000. Dividends of $500,000 paid to the Receiver General in 1971 were $2,500,000 less than in 1970.

At December 31, 1971, the Corporation had seventeen wholly-owned subsidiaries: five in the United States, including Polysar Plastics, Inc., incorporated during the year, and Decorative Components, Inc., purchased during the year; three in Switzerland; two each in the Netherlands and Canada; and one each in Britain, Belgium, Italy, Mexico and Sweden; and also held a 95% equity in two subsidiaries in France.

The Corporation was also a minority shareholder in companies in Canada, Mexico, South Africa (sold during 1972), and the United States from which it received dividends of $529,000 and in which $9,889,000 was invested at December 31, 1971. During the year the investment of $2,970,000 in one company was written down by $1,000,000 (see paragraph 208 of this Report), the investment of $65,000 in a company which suspended operations was written off in addition to payment of $210,000 in connection with the Corporation's guarantees to that company's creditors, and the Corporation's share, $214,000, of an operating loss of another company was charged to expense. Except to the extent of the foregoing amounts and dividends received, no provision has been made in the accounts for the profits and losses of companies in which the Corporation was a minority shareholder.

Net additions to fixed assets amounted to $14,720,000 of which the greater part was spent on the butyl and latex facilities in Canada, France and Belgium for added production capacity, pollution abatement programs and for improvement of technical service facilities.

Long-term liabilities totalled $39,358,000 at the year-end. Of this amount $16,-415,000 is payable in Canadian currency and the balance in foreign currencies as follows: F.fr. 36,125,000 ($7,350,000), B.fr. 250,000,000 ($5,405,000), S.fr. 25,000,000 ($6,244,000), and US$3,800,000 ($3,944,000).

The following is a summary of the operations of the Corporation and its subsidiaries for the past two years:

	Year ended December 31	
	1971	1970
Income—		
Sales	$ 170,247,000	$ 150,571,000
Other	4,425,000	6,108,000
	174,672,000	156,679,000
Expense—		
Cost of sales	147,967,000	125,053,000
Selling, administration and research	25,968,000	22,496,000
	173,935,000	147,549,000
Net income before following items	737,000	9,130,000
Provision for income tax	(438,000)	581,000
Minority interest in subsidiary companies	(97,000)	(10,000)
	(535,000)	*571,000*
Net income before extraordinary items	1,272,000	8,559,000
Extraordinary items	779,000	1,499,000
Net income	$ 493,000	$ 7,060,000

The extraordinary items comprise $1,065,000 written off investments in which the Corporation had a minority interest, $210,000 paid as guarantor of the debts of the company which ceased to operate, and $496,000 for a favourable adjustment arising from currency revaluations.

The decrease of $6,567,000 in net income is largely the result of rising costs and the strengthening of the Canadian dollar.

In July 1970 a firm of chartered accountants was appointed as joint auditor, with the Auditor General, of the Corporation.

On July 31, 1972, the Corporation was sold to the Canada Development Corporation for an immediate base payment of $62,000,000 plus an additional payment, not exceeding $10,000,000, based on profit performance in 1973 and 1974 with respect to rubber, latex and plastics products. (See paragraph 207 of this Report.)

353. *Royal Canadian Mint.* The Mint, founded in 1908, was incorporated as a Crown corporation on April 1, 1969, under the Royal Canadian Mint Act, *R.S., c. R-8*, with the objects of minting coins in anticipation of profit and carrying out other related activities. The Board of Directors consists of a chairman, the Master of the Mint and five other directors. The head office of the Mint is in Ottawa.

The Crown's equity in the Mint at December 31, 1971, was $2,300,000 consisting of $1,000,000, being the maximum reserve for losses established pursuant to section 21(1) of the Royal Canadian Mint Act, and $1,300,000 due to the Receiver General for Canada, being the amount of income over expense in excess of that permitted to be credited to the reserve. The main equipment of the Mint is rented from the Department of Finance.

The following is a summary of the income and expense of the Mint for the past two years:

	Year ended December 31	
	1971	1970
Income—		
Sales	$ 13,611,000	$ 8,167,000
Refining charges	452,000	471,000
	14,063,000	8,638,000
Expense—		
Cost of materials used	7,845,000	4,355,000
Salaries, wages and employee benefits	2,867,000	2,620,000
Building and equipment rental	523,000	519,000
Utilities and supplies	472,000	432,000
Transportation and communications	350,000	203,000
Security	209,000	186,000
Depreciation	56,000	28,000
Interest	52,000	179,000
Repairs and maintenance	26,000	16,000
Other	28,000	22,000
	12,428,000	8,560,000
Excess of income over expense	$ 1,635,000	$ 78,000

Operating costs do not include the costs of cheque issue and payroll services provided by the Department of Supply and Services and these costs have not been determined by the Department. It is general policy that Crown corporations pay for these services and we suggest that the Department of Supply and Services bill the Mint for them.

The decrease of $127,000 in interest was due to repayment of loan indebtedness in the early months of 1971.

The following inventories were held on behalf of the Department of Finance at December 31, 1971: coin, $3,612,000 (face value); gold bullion, $5,879,000; and silver bullion, $2,094,000. The Mint also held for safekeeping gold bullion valued at $1,896,000 which was owned by others.

354. *St. Clair River Broadcasting Limited.* This Company, which was incorporated under the Ontario Corporations Act, *R.S.O., c.71*, was acquired by the Canadian Broadcasting Corporation pursuant to authority contained in the Broadcasting Act, *R.S., c. B-11*. It is a wholly-owned subsidiary and its objects include the acquisition, ownership, maintenance and operation of television broadcasting stations. Its head office is in Ottawa.

The equity of the Canadian Broadcasting Corporation in the Company at March 31, 1972, was $196,000 comprising capital stock of $1,600,000 and an operating deficit of $1,404,000.

On July 24, 1970, the Company entered into a partnership agreement with a private company to purchase with retroactive effect from March 1, 1970, Windsor television station CKLW at a price of US$5,000,000. At the effective date of acquisition the tangible assets of the television station were valued at $4,230,000, which included $1,169,000 for an inventory of film rights.

The Company has a one-quarter interest in the partnership. The Company and the partner each contributed in cash US$1,250,000, one-quarter of the purchase price. The remaining half of the purchase price, US$2,500,000, was met by notes of the partner due to mature on May 31, 1975, and bearing interest at 9% per annum. Under the partnership agreement the Company is to pay the interest on the partner's notes.

The Company has the option of acquiring up to a 49% interest in the partnership at any time prior to May 31, 1975, and an obligation to purchase on that date its partner's share at its cost plus interest.

Up to March 31, 1972, the Company had contributed $1,574,000 to the partnership which incurred operating losses totalling $1,847,000 for the year ended March 31, 1972. This amount is made up of a loss of $1,089,000 for the five-month period to

August 31, 1971, based on the audited financial statements to that date which included $512,000 (net) for film rights written off, and a loss of $758,000 for the seven-month period ended March 31, 1972, based on unaudited interim financial statements. This loss of $1,847,000 was reduced by a depreciation adjustment of $109,000 retroactive to the date of commencement of operations of the partnership. At March 31, 1972, the cumulative deficit of the partnership was $4,872,000 of which the Company's share was $1,218,000. As a consequence the Company's equity at March 31, 1972, has been reduced to $356,000.

The following is a summary of the net cost of operations for the year ended March 31, 1972, and the thirteen months ended March 31, 1971:

	Year ended March 31, 1972	Thirteen months ended March 31, 1971
Income—		
Interest on cash contributed to the partnership	$ 114,000	$ 82,000
Other	10,000	9,000
	124,000	91,000
Expense—		
Share of partnership loss	434,000	784,000
Interest on partner's notes	237,000	156,000
Administrative expense	3,000	5,000
	674,000	945,000
Net loss	$ 550,000	$ 854,000

It should be noted that unless the losses experienced to date by the partnership are offset by subsequent profits, the Company will have to absorb the full loss of $4,872,000 because of the requirement that on or before May 31, 1975, it purchase its partner's share at cost, $3,750,000, plus accrued interest and its partner's share of any accrued profits to date of sale.

355. *The St. Lawrence Seaway Authority.* Established by the St. Lawrence Seaway Authority Act, *R.S., c. S-1,* the Authority is a corporation consisting of a president and two other members appointed by the Governor in Council. Its head office is in Ottawa, with operating headquarters in Cornwall, Ont., and regional headquarters in St. Lambert, Que., and St. Catharines, Ont. It maintains and operates the Canadian section of the 27-foot deep waterway between the Port of Montreal and Lake Erie, comprising the Montreal—Lake Ontario Section and the Welland Canal. The section of the Seaway in the United States is operated by the Saint Lawrence Seaway Development Corporation. Toll revenues derived from the operation of the Montreal—Lake Ontario Section are divided between the two Seaway entities in accordance with an agreement approved by the Governments of Canada and the United States.

The Authority also operates a non-toll canal at Sault Ste. Marie, Ont., and administers former canals and other properties at Lachine, Que., Cornwall, Ont., and in the Niagara Peninsula, the net operating cost being provided for by annual parliamentary appropriations.

The Crown's equity in the Authority at December 31, 1971, was $706,944,000 comprising capital assets transferred from the Department of Transport (Welland Canal), $130,255,000, loans, $556,750,000, deferred interest, $99,578,000, contribution by Canada for acquisition of capital assets, $86,000, and accumulated deficit, $79,725,000.

The operating results of the Authority in respect of the Montreal—Lake Ontario and Welland Sections of the Seaway for the past two years are as follows:

	Year ended December 31	
	1971	1970
Income—		
Tolls	$ 24,388,000	$ 22,143,000
The Seaway International Bridge Corporation, Ltd.—net income	151,000	204,000
Other	3,253,000	2,353,000
	27,792,000	24,700,000
Expense—		
Operation and maintenance	15,558,000	13,198,000
Headquarters administration	3,001,000	3,017,000
Construction branch	2,572,000	2,326,000
Engineering	2,064,000	2,121,000
Regional administration	2,154,000	1,867,000
	25,349,000	22,529,000
Portion allocated to:		
Construction	2,953,000	2,757,000
Non-toll canals	457,000	408,000
	3,410,000	3,165,000
	21,939,000	19,364,000
Net operating income before providing for interest and for replacement of machinery and equipment	5,853,000	5,336,000
Interest on loans from Canada	21,781,000	19,825,000
Provision for replacement of machinery and equipment	1,114,000	1,042,000
Interest on claims	—	3,000
	22,895,000	20,870,000
Net loss	$ 17,042,000	$ 15,534,000

The following summary shows the operating results of the Montreal—Lake Ontario Section for the past two years together with the cumulative operating results from the opening of the Seaway in 1959:

	Year ended December 31 1971	1970	Cumulative to December 31 1971
Income—			
Tolls	$ 20,041,000	$ 18,599,000	$ 177,072,000
Other	2,147,000	1,358,000	10,409,000
	22,188,000	19,957,000	187,481,000
Expense of operation, maintenance and administration	9,396,000	7,481,000	57,214,000
Net operating income	12,792,000	12,476,000	130,267,000
Interest on loans	19,769,000	18,800,000	197,668,000
Interest on claims	—	3,000	494,000
Provision for replacement of machinery and equipment	1,114,000	1,042,000	11,724,000
Assets written off	—	—	180,000
	20,883,000	19,845,000	210,066,000
	8,091,000	7,369,000	79,799,000
Less: Special maintenance program provided for by parliamentary appropriation	74,000	—	74,000
Deficit	$ 8,017,000	$ 7,369,000	$ 79,725,000

The increase of $1,442,000 in tolls is due to an increase in Seaway tonnage from 51 million tons in 1970 to 53 million tons in 1971. The entire increase was in general cargo which bears higher tolls.

Section 17 of the St. Lawrence Seaway Authority Act requires that tolls provide revenue sufficient to defray the cost of operations including provision for repayment of the capital indebtedness. The foregoing summary of operating results shows that since the opening of the Seaway in 1959 a deficit of $80 million has accumulated without any provision for repayment of the capital indebtedness of $338 million which the Act requires be met from earnings by December 31, 2009. If this obligation is to be met, toll revenue over the 38 years from 1972 to 2009 must average over $35 million annually on the basis of 1971 costs. The toll revenue for 1971 was $15 million short of meeting this requirement.

The operating results of the Welland Section of the Seaway for the past two years are as follows:

	Year ended December 31 1971	1970
Expense of operation, maintenance and administration	$ 12,543,000	$ 11,884,000
Income—		
Lockage fees	4,347,000	3,545,000
Rentals, wharfage, etc.	1,256,000	1,198,000
	5,603,000	4,743,000
Net operating loss	6,940,000	7,141,000
Interest on loans	2,011,000	1,024,000
Deficit	$ 8,951,000	$ 8,165,000

	Year ended December 31	
	1971	1970
Deficit provided for by—		
Transport Vote 95 (Vote 85 in 1970-71)	$ 8,870,000	$ 8,165,000
Transport Vote 97a (special maintenance program)	81,000	—
	$ 8,951,000	$ 8,165,000

With the opening of the Seaway in 1959 the operation and management of the Welland Canal became a responsibility of The St. Lawrence Seaway Authority. Tolls were suspended in 1962 and the annual operating deficits since 1959, totalling $87,561,000 to December 31, 1971, have been recovered from parliamentary appropriations. The lockage fee of $20 a lock which was introduced in 1967 has been increased by $20 annually and reached the $100 ceiling in 1971.

An agreement made in 1959 between the Authority and the Saint Lawrence Seaway Development Corporation established a joint tariff of tolls for the Seaway. The agreement provided that the division of tolls from the operation of the Montreal—Lake Ontario Section would be initially 71% to the Authority and 29% to the Corporation, and that these percentages would be adjusted from time to time so that the Authority and the Corporation would receive a portion of the tolls in the ratio of their respective annual charges for operation, maintenance, interest and retirement of debt to their combined annual charges in respect of that portion of the Seaway.

In March 1967 the Governments of Canada and the United States agreed to continue the existing schedule of tolls for the Montreal—Lake Ontario Section, to divide tolls on the basis of 73% to the Authority and 27% to the Corporation, and that the sufficiency and division of tolls might, at the request of either entity, be reviewed at the end of the 1970 navigation season, with a view to any necessary adjustment in accordance with the provisions of the 1959 agreement. Neither of the Seaway entities requested such a review.

The original conditions under which loans were made to the Authority for the Montreal—Lake Ontario Section of the Seaway under section 28 of the Act required the payment of interest only, in the first three full years of operation (through the year ended December 31, 1962), and thereafter payment of annual amounts sufficient to amortize all loans and interest thereon over a period of 47 years (or by December 31, 2009). The terms of the Authority's financing arrangements were amended in 1961, 1963, 1964, 1967 and again in 1968 and now provide that loans in respect of the Montreal—Lake Ontario Section of the Seaway, together with interest, are to be repaid in such amounts each year as the cumulative net profits of the Montreal—Lake Ontario Section, before amortization of the loan principal, will permit. Unpaid interest bears interest until paid and the principal and interest are to be fully paid on or before December 31, 2009. At December 31, 1971, loans in respect of the Montreal—Lake Ontario Section amounted to $337,900,000 and unpaid interest to $81,147,000.

For the Welland Section, loans to finance improvements totalled $218,850,000 of which $72,500,000 is interest-free and the balance of $146,350,000 provided since September 22, 1966, bears interest, of which $18,432,000 had accrued up to December 31, 1971. This amount of $18,432,000 is interest capitalized during construction and payments of principal and interest are not to commence until December 31 of the year in which the Minister of Transport determines that each modernization project is completed, at which time the terms of repayment are to be determined by the Governor in Council. Interest charged to operations in 1971 totalled $2,011,000 compared with $1,024,000 in the prior year. The increase reflects the decision to cease capitalizing interest on costs related to land, design work, etc., incurred on projects related to future improvements.

The costs of operating and maintaining the canals and works under the administration of the Authority are defined in section 17 of the St. Lawrence Seaway Authority Act as including all operating costs of the Authority and such reserves as may be approved by the Minister, together with loan interest and amortization of loan principal. The Authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance cost and that the amortization over the fifty-year period of the principal of the amounts borrowed together with the interest meets the requirements of this section. Accordingly, no provision for depreciation has been included in the costs of the year. It is important to note, however, that no amortization of principal has been made up to December 31, 1971, and while interest has been accrued annually, payment of a substantial portion thereof has been deferred.

As in previous years, provision was made for replacement of lock, bridge and building machinery and equipment of the Montreal—Lake Ontario Section. The provision for 1971 amounted to $1,114,000 and the accumulated provision at December 31, 1971, to $11,117,000. As in prior years, no provision was made in 1971 for replacement of machinery and equipment for the Welland Section.

The following matters have been outstanding for some years:

(a) In 1956 an arrangement was made between the Authority and three municipalities whereby the municipalities would contribute $250,000 towards the cost of extending the collector sewer which was then being constructed as the main part of the Authority's South Shore remedial works. In 1961 two of the three municipalities passed official resolutions to accept the 1956 proposal and to share in the $250,000 contribution. The sewer extension was completed in 1963 at a cost of $480,000 and the municipalities were billed in February 1964 for their contribution. No payment has been received by the Authority from the municipalities, two of which are said to be under trusteeship of the Province of Quebec because of financial difficulties. During 1966 the Department of Justice, on behalf of the Authority, appointed an agent to take legal proceedings. On September 18, 1970, details of the matter were conveyed to the Federal-Provincial Relations Secretariat of the Privy Council Office.

(b) The Beauharnois Canal, constructed by the Beauharnois Light, Heat and Power Company, was conveyed to the Crown in 1932 with the Company, which has since been taken over by the Quebec Hydro-Electric Commission, retaining the responsibility for certain operating and maintenance expenses of the Canal. The Canal became part of the St. Lawrence Seaway in 1959. The Authority has not been reimbursed its maintenance expenses on the Canal since 1962 as the Commission takes the stand that it is not responsible for these costs because of provincial legislation passed in 1962 which dissolved the Beauharnois Light, Heat and Power Company. Settlement of the issue continues to rest with the federal and provincial governments. (See paragraph 65 of this Report.)

The following table summarizes for the past two years the expense, income and capital expenditure relating to the non-toll canals operated or administered by the Authority:

	Year ended December 31	
	1971	1970
Expense—		
Operation and maintenance	$ 1,184,000	$ 1,480,000
Grants in lieu of municipal taxes	472,000	519,000
Special maintenance program	214,000	—
Portion of Authority's administration and engineering expenses applicable to non-toll canals	457,000	408,000
	2,327,000	2,407,000
Income from rentals, wharfage, etc.	581,000	579,000
Operating deficit	1,746,000	1,828,000
Capital expenditure	10,000	7,000
Operating deficit and capital expenditure	$ 1,756,000	$ 1,835,000
Operating deficit and capital expenditure provided for by—		
Transport Vote 105 of 1971-72	$ 1,557,000	$ —
Transport Vote 95 of 1970-71	199,000	1,417,000
Transport Vote 85 of 1969-70	—	418,000
	$ 1,756,000	$ 1,835,000

356. *The Seaway International Bridge Corporation, Ltd.* This Corporation was incorporated in 1962 under the Canada Corporations Act, *R.S., c. C-32*, pursuant to section 27(1) of the St. Lawrence Seaway Authority Act, *R.S., c. S-1*, as a subsidiary of The St. Lawrence Seaway Authority to operate and manage the international toll bridge between Cornwall, Ont., and Rooseveltown, N.Y. The bridge is jointly owned by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation). The Authority's interest is represented by capital stock of $8,000 and the Corporation's interest by debentures of $8,000. Each entity has four representatives on the Board of Directors.

Under the terms of the bridge operating agreement between the Authority and the Corporation, the annual net income from operation of the bridge system is to be first applied towards the amortization of the cost, including interest, of the North Channel Bridge and the remainder, if any, divided equally between the Seaway entities.

The following is a summary of the operations of The Seaway International Bridge Corporation, Ltd., for the past two years:

	Year ended December 31	
	1971	1970
Income—		
Bridge tolls	$ 477,000	$ 492,000
Other	16,000	20,000
	493,000	512,000
Expense—		
Salaries, wages and employee benefits	249,000	230,000
Maintenance materials and services	28,000	16,000
Grant in lieu of municipal taxes	15,000	16,000
Rental of toll collection machines	13,000	13,000
Advertising	13,000	12,000
Other	24,000	21,000
	342,000	308,000
Net income—transferred to The St. Lawrence Seaway Authority	$ 151,000	$ 204,000

The amount of $151,000 was transferred to The St. Lawrence Seaway Authority to be applied towards the amortization of the cost, including interest, of the North Channel Bridge. As this amount was insufficient to cover even the interest charges of $552,000 for the year, the unamortized balance increased by $401,000 from $11,012,000 at December 31, 1970, to $11,413,000 at December 31, 1971.

357. *Uranium Canada, Limited.* This Company was incorporated in June 1971 under the Canada Corporations Act, *R.S., c. C-32,* pursuant to section 10 of the Atomic Energy Control Act, *R.S., c. A-19.* The authorized share capital of the Company consists of 1,000 shares without nominal or par value, not to exceed in the aggregate $50,000. The Company is managed by a Board of Directors, consisting of a president, three vice-presidents and three other members, all appointed by the Minister of Energy, Mines and Resources from the ranks of senior civil servants. It is an agent of Her Majesty and acts on behalf of the Federal Government with respect to the acquisition and future sale of the stockpile of uranium concentrates established under a joint venture agreement with Denison Mines Limited. The head office is in Ottawa and the Department of Energy, Mines and Resources provides administrative services to the Company without charge.

In 1971 the Canadian uranium industry was faced with a serious over-supply situation due to the large excess of production over demand in the Western World and to the substantial quantities of uranium available from existing stockpiles. The possible shut down of a uranium mine at Elliot Lake, Ont., and the consequent unemployment in the area created a particularly serious threat to the continued existence of that mining community. In order to assist the community by maintaining employment, the Federal Government agreed upon a joint stockpiling program

with the major employer in the area and formed Uranium Canada, Limited to represent Canada in all commercial activities relating to the purchase, storage and sale of the joint stockpile. The agreement ensures the continued operation of the Elliot Lake mine through 1974.

Energy, Mines and Resources Vote L11c of 1970-71 provided $29.5 million to fund Canada's share of the joint stockpile. From the date of inception on June 21, 1971, to December 31, 1971, 2,005,667 lbs. of uranium concentrates were stockpiled at a cost to the Crown of $9,319,000 for its 76% interest in the stockpile.

Other Crown Corporations

358. The paragraphs that follow deal with the several Crown corporations which are not audited by the Auditor General. In each case an introductory comment describes briefly the origin of the corporation and the nature of its activity followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the year in comparison with the preceding year, and any other matter that might be of interest to the House of Commons.

359. *Air Canada.* This Corporation was established by the Air Canada Act, *R.S., c. A-11*, as a wholly-owned subsidiary of the Canadian National Railway Company. The Board of Directors consists of nine persons, four of whom are appointed by the Governor in Council and five elected by the shareholders. The latter directors are also directors of the Canadian National Railway Company. The head office of the Corporation is in Montreal, Que.

The Corporation is authorized to establish, operate and maintain air lines or regular services of aircraft of all kinds, to carry on the business of transporting mails, passengers and goods by air, and to enter into contracts for the transport of mails, passengers and goods by any means and to carry on the business of warehousing goods, wares and merchandise of every kind and description.

Canada finances Air Canada with advances to enable the Corporation to meet current operating and income charges, and with loans authorized by annual Financing and Guarantee Acts.

The Crown's equity in Air Canada through its parent company and by direct investment at December 31, 1971, was $678,063,000 represented by: notes and debentures, $631,602,000; interest and dividends payable, $7,310,000; share capital, $5,000,000; and retained earnings, $34,151,000.

The following is the Statement of Income and Retained Earnings of Air Canada for the past two years:

	Year ended December 31	
	1971	1970
Operating Revenues—		
Passenger	$ 410,407,000	$ 387,486,000
Freight and express	53,405,000	52,506,000
Mail	16,677,000	16,229,000
Charter	19,550,000	15,686,000
Incidental services—net	8,302,000	6,352,000
	508,341,000	478,259,000
Operating Expenses—		
Flying operations	107,661,000	101,763,000
Maintenance	80,834,000	82,813,000
Passenger service	54,371,000	50,665,000
Aircraft and traffic servicing	79,796,000	75,763,000
Sales and promotion	75,638,000	75,384,000
General and administrative	23,016,000	23,781,000
Depreciation and obsolescence	58,769,000	47,227,000
	480,085,000	457,396,000
Operating Income	28,256,000	20,863,000
Non-Operating Expenses (Income)—		
Interest on debt	31,861,000	31,920,000
Interest capitalized	(3,868,000)	(5,728,000)
Gain on disposal of assets	(527,000)	(122,000)
Non-operating income—net	(2,072,000)	(3,063,000)
	25,394,000	23,007,000
Net Income (Loss) Before Deferred Income Taxes	2,862,000	(2,144,000)
Deferred Income Taxes	1,200,000	(1,072,000)
Net Income (Loss)	1,662,000	(1,072,000)
Retained Earnings—		
Balance at beginning of year	32,689,000	27,725,000
Adjustment of deferred income taxes	—	6,236,000
Dividend	(200,000)	(200,000)
Balance at end of year	$ 34,151,000	$ 32,689,000

Air Canada employees numbered 17,266 at December 31, 1971, a reduction from 17,447 the year before.

The Act provides that the accounts and financial transactions of the Corporation shall be audited by the auditor appointed by Parliament to audit the accounts of Canadian National Railways.

360. *Bank of Canada.* The Bank, established in 1934 by the Bank of Canada Act, *R.S., c. B-2,* is under the management of a Board of Directors composed of a governor, a deputy governor and twelve directors appointed with the approval of the Governor in Council. The head office is in Ottawa and agencies are maintained in nine cities across Canada.

The Bank's statutory powers include the sole right to issue notes for circulation in Canada and it may: buy and sell gold, silver, nickel and bronze coin or any other

coin, and gold and silver bullion; buy and sell securities issued or guaranteed by Canada or any province; make loans or advances to chartered banks; make loans or advances to the Government of Canada or to the government of any province; accept deposits, which shall not bear interest, from the Government of Canada, from the government of any province or from chartered banks; and open accounts in a central bank in any other country and accept deposits from central banks in other countries.

As required by the Act, the Bank has established a rest fund by allocations from surplus. This fund has reached its statutory limit of $25 million and together with the paid-up capital of $5 million represents Canada's equity in the Bank at December 31, 1971. At the same date Canada had $107 million on deposit with the Bank.

The following is a summary of the income and expense of the Bank for the past two years:

	Year ended December 31	
	1971	1970
Income—		
Investment and other income	$ 292,583,000	$ 274,349,000
Expense—		
Salaries and employee benefits	12,032,000	10,000,000
Bank note costs	7,138,000	7,611,000
Maintenance of premises and equipment—net	2,260,000	1,148,000
Taxes—municipal and business	1,579,000	1,475,000
Data processing and computer costs	558,000	486,000
Postage and express	316,000	274,000
Printing and stationery	301,000	262,000
Travel and staff transfers	296,000	344,000
Telephone and telegrams	291,000	268,000
Printing and other costs of publications	224,000	157,000
Auditors' fees and expenses	124,000	105,000
Other	587,000	750,000
	25,706,000	22,880,000
Depreciation of buildings and equipment	1,383,000	1,176,000
	27,089,000	24,056,000
Net income, paid to the Receiver General for Canada	$ 265,494,000	$ 250,293,000

During 1971 the number of employees averaged 1,169 compared with 1,106 in 1970.

The net book value of land, buildings and equipment decreased by $6,374,000 during the year.

The Act requires the Governor in Council to appoint annually two auditors to audit the affairs of the Bank.

361. *Canadian National Railways.* This name is a collective or descriptive designation of all lines of railway or railway works comprising the Canadian National Railway Company, the Canadian Government Railways and sundry other companies.

The Canadian National Railway Company was incorporated in 1919 by the Canadian National Railways Act, *R.S., c. C-10*, and is empowered

(a) to accept the management and operation of any lines of railway or parts thereof, and any property or works of whatever description, or interests therein, and any powers, rights or privileges over or with respect to any railways, properties or works, or interests therein, that may be vested in or owned, controlled or occupied by Her Majesty;

(b) with the approval of the Governor in Council, to construct, maintain and operate railway lines, branches and extensions if the line does not exceed twenty miles in length and in any other case, if Parliament has, in respect of the construction thereof, authorized the necessary expenditure;

(c) to carry on all business that is customarily carried on by express companies, including the handling of express money orders or other methods of transmitting or handling money, securities, or other articles of value;

(d) to establish, construct or acquire by purchase, lease or otherwise and to maintain and operate telecommunication facilities, systems and services in Canada and elsewhere;

(e) in conjunction with or substitution for the rail services under its control, to buy, sell, lease, or operate motor vehicles of all kinds for the carriage of traffic;

(f) to construct, purchase, lease or otherwise acquire, charter, own, maintain, operate and manage vessels, motorships, steamships, tugs, car ferries, etc., and to sell or otherwise dispose thereof and shall be entitled to charge fares and freight for traffic carried on board such vessels; and

(g) to purchase, lease or otherwise acquire or provide, hold, use, enjoy and operate such lands, water lots, wharfs, warehouses, elevators, hotels, etc., as may be necessary for its purposes and to sell or otherwise dispose thereof.

The direction and control of the Company and its undertakings are vested in a Board of Directors composed of twelve members, each of whom is appointed by the Governor in Council for a term not exceeding three years. The head office of the Company is in Montreal, Que.

Canada provides financial assistance to the Company in a number of ways:

LOANS TO REDEEM OUTSTANDING SECURITIES AT MATURITY. Under provisions of the Canadian National Railways Refunding Act, 1955, *1955, c.31*, the Minister of Finance may make temporary loans for debt redemption. The loans for this purpose at March 31, 1972, totalled $819,543,500.

LOANS FOR CAPITAL EXPENDITURE. Annual Financing and Guarantee Acts authorize the Minister of Finance to make loans for specific capital purposes. No such loans were made in 1971-72, the balance outstanding at March 31, 1972, being $197,371,000.

LOANS TO ACQUIRE SECURITIES ON THE OPEN MARKET. The Canadian National Railways Financing and Guarantee Act, 1941, *1940-41, c.12,* and the Canadian National Railways Financing and Guarantee Act, 1942, *1942-43, c.22,* authorize the Minister of Finance to make loans for the purpose of acquiring securities of the Company on the open market. The total amount advanced for this purpose at March 31, 1972, was $44,297,000.

ADVANCES RE ANNUAL DEFICITS. The annual Financing and Guarantee Acts authorize the Minister of Finance to advance sums required to meet current charges. If the operations of the National System result in a deficit, the deficit is provided for by a parliamentary appropriation. The deficit for the year ended December 31, 1971, amounted to $24,268,000 which was provided for by Transport Vote 60, Appropriation Act No. 3, 1971, *1970-71-72, c.46.* At March 31, 1972, no advances had been made with respect to the anticipated deficit on 1972 operations.

WORKING CAPITAL—CANADIAN GOVERNMENT RAILWAYS. In 1937 the Canadian National Railways Capital Revision Act, *R.S. 1952, c.311,* provided for the adjustment of certain differences between the Public Accounts of Canada and the accounts of the National Railway System by consolidation of various amounts in the Public Accounts into the Canadian Government Railways Working Capital Account. There is no interest charged on this advance which has remained practically unchanged since 1937 and which amounted at March 31, 1972, to $16,984,000.

MORATORIUM OF INTEREST ON $100,000,000. The Canadian National Railways Capital Revision Act suspended interest payments for ten years on a $100 million debenture due January 1, 1972. Annual Financing and Guarantee Acts have extended the interest moratorium each year, the last extension, covering the period to December 31, 1971, being provided by the Canadian National Railways Financing and Guarantee Act, 1970, *1970-71-72, c.17.* On January 1, 1972, this debenture was exchanged for a new temporary loan secured by a promissory note on which no interest was payable in respect of the calendar year 1972.

In addition to the loans, advances and other financing arrangements mentioned previously, Canada's equity in the Canadian National Railways at March 31, 1972, included the following:

$1,235,181,000 in 4% preferred stock of the Canadian National Railway Company acquired under section 6 of the Canadian National Railways Capital Revision Act which has been continued since 1960 by the annual Financing and Guarantee Acts and which requires the Minister of Finance to purchase annually additional stock, at a par value of $1 per share, equal to 3% of the gross revenue of the National System in the year;

$428,397,000 in capital investment in the Canadian Government Railways; and

$359,963,000, the value assigned to 6,000,000 shares of no par value capital stock of the Canadian National Railway Company.

The Crown's equity in the Canadian National Railways at December 31, 1971, as shown by the published financial statements amounted to $3,101,735,000 and comprised:

Government of Canada loans and debentures	$ 1,078,195,000
No par value capital stock of Canadian National Railway Company	359,963,000
4% preferred stock of Canadian National Railway Company	1,235,180,000
Capital investment in the Canadian Government Railways	428,397,000
	$ 3,101,735,000

The following is the Consolidated Income Statement of the Canadian National Railways for the past two years:

	Year ended December 31 1971	1970
Railway Operating Revenues—		
Carload freight services	$ 865,336,000	$ 772,854,000
Express and intermodal services	122,226,000	111,431,000
Passenger services	64,303,000	65,016,000
All other services	57,913,000	54,057,000
Payments under the Railway Act	31,010,000	38,995,000
Total Railway Operating Revenues	1,140,788,000	1,042,353,000
Railway Operating Expenses—		
Road maintenance	177,911,000	169,870,000
Equipment maintenance	224,634,000	204,386,000
Transportation	459,236,000	422,794,000
Sales	29,231,000	27,442,000
Miscellaneous operations	58,807,000	53,634,000
General	98,590,000	85,839,000
Taxes	48,592,000	44,852,000
Equipment and joint facility rents	22,439,000	18,816,000
Total Railway Operating Expenses	1,119,440,000	1,027,633,000
Net Railway Operating Income	21,348,000	14,720,000
Other Income—		
Net income from:		
Telecommunications department	15,257,000	15,358,000
Hotels	3,092,000	3,011,000
Separately operated trucking companies	1,766,000	1,644,000
Other sources	2,767,000	11,059,000
Total Other Income	22,882,000	31,072,000
Net Income before Interest on Debt	44,230,000	45,792,000
Interest Charges—		
Total interest on debt	89,250,000	97,019,000
Less: Interest received on loans to Air Canada	20,752,000	21,518,000
Net Interest on Debt	68,498,000	75,501,000
Deficit	$ 24,268,000	$ 29,709,000

Note: As a result of change in classification, 1971 mail revenues of $8,849,000 have been included in All other services. 1970 mail revenues, which were distributed to Carload freight, Express and intermodal and Passenger services have been reclassified for comparability.

During the year the number of employees of the Canadian National Railways averaged 81,744 compared with 82,442 the year before.

Section 38 of the Canadian National Railways Act provides that a continuous audit of the accounts of National Railways shall be made by independent auditors appointed annually by Parliament who shall annually report to Parliament in respect of their audit.

362. *The Canadian National Railways Securities Trust.* This Corporation was established in 1937 by the Canadian National Railways Capital Revision Act, *R.S. 1952, c.311*, to take over and hold certain indebtedness of the Canadian National Railway System to the Crown, together with the underlying collateral securities of the original debtor corporations. The Board of Trustees is composed of the twelve directors of the Canadian National Railway Company. The head office of the Securities Trust is in Montreal, Que.

The capital stock of the Securities Trust consists of five million shares of no par value, with an initial stated value of $270,037,000 which represented the total of loans made to the National Railway System for capital purposes prior to January 1, 1937. The Act authorized the Minister of Finance to exchange the stock of the Securities Trust for an equal number of no par value shares of the National Company with a stated value of $378,518,000. The retirement of steam locomotives in the years 1956 to 1960 inclusive resulted in a capital loss of $36,555,000 which reduced the stated value of the capital stock to $341,963,000.

There were no transactions during the year and the balance sheet as at December 31, 1971, is as follows:

ASSETS		LIABILITIES	
Claims for principal of loans	$ 643.860,000	Capital stock owned by the Canadian National Railway Company —5,000,000 shares of no par value	$ 341,963,000
Claims for interest on loans	574,782,000		
Transactions of Canadian National Railway System subsequent to January 1, 1937 affecting the book value of the capital stock of the Trust	71,926,000	Amount by which the book value of claims and interest thereon exceeded the initial stated value as of January 1, 1937	948,605,000
	$ 1,290,568,000		$ 1,290,568,000

The audit of the accounts of The Canadian National Railways Securities Trust is carried out by the auditors appointed annually by Parliament to make a continuous audit of National Railways.

363. *The Canadian Wheat Board.* The Board, consisting of not less than three nor more than five commissioners appointed by the Governor in Council, was incorporated in 1935 under the Canadian Wheat Board Act, *R.S., c. C-12*, with the object of marketing in an orderly manner, in interprovincial and export trade, grain grown in Canada. The Board was originally established as a marketing organization to purchase wheat from producers on a voluntary basis and to engage in the necessary marketing activities to dispose of wheat delivered to it. However, since September 27, 1943, the Board has been the sole marketing agency for Western Canadian wheat under authorization of a regulation approved by the Governor in Council. Similarly, since August 1, 1949, the Board has been the sole marketing agency for oats and barley as well as wheat produced in Western Canada for commercial markets.

The Board's powers include authority to buy, take delivery of, store, transfer, sell, ship or otherwise dispose of grain. Only grain produced in the designated area, which includes Manitoba, Saskatchewan, Alberta, the eastern part of British Columbia, and the western edge of Ontario is purchased by the Board which controls the delivery of grain into elevators and railway cars in that area as well as the interprovincial movement and export of wheat, oats and barley generally. The head office of the Board is in Winnipeg and offices are maintained in Montreal, Vancouver, London and Tokyo.

Producers are paid a fixed initial price for grains delivered, with final payments made after recovery of all outlays. Losses sustained are to be recouped from moneys provided by Parliament.

To finance its operations the Board, under the provisions of the Act, is authorized to enter into ordinary commercial banking arrangements on its own credit and to borrow money on the security of grains held. As at July 31, 1971, the year-end of the Board, loans from banks, which are guaranteed by the Government of Canada, amounted to $326,001,000.

Under the Prairie Grain Advance Payments Act, *R.S., c. P-18,* the Board may make cash payments up to $6,000 to each prairie farmer during a crop year for wheat, oats and barley in advance of delivery. From the date of inception of the Act, November 25, 1957, to the end of the 1970-71 crop year, July 31, 1971, the Board had advanced $953 million to farmers of which $906 million had been repaid, leaving $47 million to be repaid by the farmers. Interest on borrowings, to enable the Board to make the advances, amounted to $36 million of which all but $292,000 had been reimbursed by Canada.

Under section 3 of the Temporary Wheat Reserves Act, *R.S. (2nd Supp.), c. 31,* $62,116,000 was recoverable by the Board from Canada with respect to Board stocks in excess of one hundred and seventy-eight million bushels in the crop year 1970-71.

A summary of the operations of the 1970-71 Pool Accounts for wheat, oats and barley in comparison with the operations in 1969-70 follows:

	Year ended July 31	
	1971	1970
Wheat—		
Completed sales	$ 295,558,000	$ 105,424,000
Uncompleted sales at contract values	—	227,658,000
Stocks of wheat in store at year-end:		
At ultimate value received from sale thereof (including sales of 99 million bushels from the 1970-71 to the 1971-72 Pool Account)	562,198,000	—
At cost	—	478,498,000
	857,756,000	811,580,000

	Year ended July 31 1971	1970
Less:		
Wheat acquired	$ 768,114,000	$ 786,371,000
Carrying costs, interest, administrative and general expenses	15,367,000	16,766,000
	783,481,000	803,137,000
Surplus on operations	$ 74,275,000	$ 8,443,000
Oats—		
Completed sales	$ 19,258,000	$ 11,665,000
Uncompleted sales at contract values	2,946,000	—
Stocks of oats in store at year-end:		
At cost	14,727,000	—
At ultimate value received from sale thereof	—	9,507,000
	36,931,000	21,172,000
Less:		
Oats acquired	30,301,000	17,687,000
Carrying costs, interest, administrative and general expenses	2,039,000	1,753,000
	32,340,000	19,440,000
Surplus on operations	$ 4,591,000	$ 1,732,000
Barley—		
Completed sales	$ 145,912,000	$ 100,054,000
Stocks of barley in store at year-end, at ultimate value received from sale thereof (including sales of$6,005,000 from the 1970-71 to the 1971-72 Pool Account)	63,162,000	54,511,000
	209,074,000	154,565,000
Less:		
Barley acquired	210,623,000	142,775,000
Carrying costs, interest, administrative and general expenses	9,396,000	7,449,000
	220,019,000	150,224,000
(Deficit) surplus onoperations	$ (10,945,000)	$ 4,341,000

The number of employees at July 31, 1971, was 722 compared with 680 at July 31, 1970.

The Act provides for the appointment by the Board with the approval of the Governor in Council of a responsible firm of chartered accountants for the purpose of auditing accounts and records and certifying reports of the Board.

364. *Cape Breton Development Corporation.* The Cape Breton Development Corporation was established on October 1, 1967, by the Cape Breton Development Corporation Act, *R.S., c. C-13,* for the purpose of broadening the base of the economy of Cape Breton Island. In meeting its responsibilities, the Corporation is to promote and assist the financing and development of industry on the Island to

provide employment outside the coal producing industry. Related steps are the acquisition of the interests of the major coal producer in the Sydney coalfield and reorganization and operation of the mines with a view to the rationalization of their coal production. These in turn are to be followed by the progressive withdrawal of the Corporation from such production in accordance with a plan which is to take into account progress in providing employment outside the coal producing industry. The head office of the Corporation is in Sydney, N.S.

The Act provides for the payment of working capital advances and capital and operating grants to the Corporation by the Minister of Finance on the requisition of the Corporation and the Minister of Regional Economic Expansion. In addition funds for operating purposes have been paid to the Corporation under parliamentary appropriations.

The Crown's equity in the Corporation at December 31, 1971, was $14,067,000 comprising unused fixed asset grants for the Coal Division, $3,623,000, unused operating grants for the Coal Division, $129,000, balance of capital grants for the Industrial Development Division, $11,295,000, and losses of $980,000 to be covered by additional operating grants.

During the year receipts from Canada, other than working capital advances, were:

Regional Economic Expansion Vote 35—	
Amounts to be applied in payment of 1971 operating losses of coal mining and related works and undertakings, administrative expenses of the Coal Division, and grants in lieu of taxes to municipalities	$ 28,830,000
Statutory grant—	
Capital—Coal Division	8,929,000
	$ 37,759,000

In last year's Report (paragraph 322) we referred to the acquisition on March 30, 1968, under authority of section 9 of the Act, of lands and personal property located on Cape Breton Island, and interests in land and personal property located under adjacent waters that constituted or formed part of the works and undertakings operated or carried on by Dominion Coal Company, Limited, Nova Scotia Steel and Coal Company, Limited, The Dominion Rolling Stock Company Limited, Sydney and Louisburg Railway Company, The Scotia Rolling Stock Company Limited and The Cumberland Railway Company. We pointed out that the notes forming an integral part of the financial statements of the Corporation's Coal Division for the year ended December 31, 1969, disclosed that the cost of acquisition, if any, to be paid by the Minister of Finance out of the Consolidated Revenue Fund, under authority of section 19 of the Act, had not yet been determined and no payments had been made. A similar note forming an integral part of the financial statements for the year ended December 31, 1970, disclosed that an offer of settlement in the amount of $11,000,000 filed in the Exchequer (now Federal) Court of Canada had

not been accepted and settlement negotiations were in process. The financial statements for the year ended December 31, 1971, disclosed that the situation was unchanged. However, late in 1972 settlement in the amount of $14,654,000 was agreed to.

In last year's Report we also noted that in March 1971, under the authority of section 23 of the Act, as amended by *R.S. (1st Supp.), c.7,* the Governor in Council authorized the Corporation to guarantee a $30,000,000 bank loan to a non-Canadian company for expanding its operations on Cape Breton Island. A note forming an integral part of the financial statements for the year ended December 31, 1971, recorded that such a guarantee had been given.

The Corporation had 4,346 employees at December 31, 1971, compared with 4,521 the year before.

The Act makes no provision for appointment of an auditor and the Governor in Council in complying with section 67 of the Financial Administration Act has designated a firm of chartered accountants to audit the accounts of the Corporation.

365. *Central Mortgage and Housing Corporation.* This Corporation, established in 1945 by the Central Mortgage and Housing Corporation Act, *R.S., c. C-16,* is charged with the administration of the National Housing Act, *R.S., c. N-10,* to promote the construction of new houses, the repair and modernization of existing houses, and generally the improvement of housing and living conditions. The head office is in Ottawa, regional offices are maintained in Halifax, Montreal, Toronto, Winnipeg and Vancouver, and there are 61 local offices throughout Canada.

The Corporation consists of a Minister designated by the Governor in Council and a Board of Directors, consisting of a president, a vice-president and eight other members appointed with the approval of the Governor in Council. It is empowered by the National Housing Act to:

> insure mortgage loans made by banks, life insurance, trust and loan companies and other approved lenders on new and existing housing;
>
> enter into contracts with builders to guarantee an annual return of rentals from housing projects for a period not exceeding thirty years after completion;
>
> make mortgage loans for construction, purchase or improvement of low-rental housing projects;
>
> make mortgage loans to borrowers engaged in the mining, lumbering, logging or fishing industry for construction of low or moderate-cost housing projects in areas adjacent to the operations of the borrowers;
>
> make contributions to provinces and municipalities for the renewal of substandard areas in accordance with approved plans;

undertake jointly with the government of any province the acquisition and development of land for housing purposes, and the construction of housing projects or housing accommodation of hostel or dormitory type for sale or rent;

make loans to provinces, municipalities or public housing agencies to acquire and service land for public or general housing purposes and for the construction of public housing projects;

make contributions to provinces, municipalities and public housing agencies to assist in providing housing accommodation to individuals or families of low income at rentals less than the cost of amortizing and operating the public housing project;

make loans to provinces, municipalities, hospitals, school boards, universities, co-operative associations and charitable institutions for the construction, acquisition, or improvement of student housing projects;

make loans to provinces, municipalities and municipal sewerage corporations for the construction or expansion of sewage treatment projects to assist in the elimination or prevention of water and soil pollution and to forgive 25% of the principal and interest of the loan where the project is completed before March 31, 1975 or where the project is not completed before March 31, 1975 to forgive payment by the borrower of 25% of the amount that has been advanced by that date;

purchase, lease or otherwise acquire, and to sell, lease or otherwise dispose of, land or housing projects on its own behalf or on behalf of the Federal Government;

enter into contracts with builders to encourage the construction of houses to be sold to prospective home owners; and

make mortgage loans to persons unable to obtain loans from an approved lender for construction of a house or housing project.

To attain the Corporation's objects, the National Housing Act permits the Corporation, upon terms and conditions approved by the Governor in Council, to borrow from Canada amounts not exceeding $8,000 million. In addition, Urban Affairs and Housing Vote L10, Appropriation Act No. 3, 1971, *1970-71-72, c.46*, authorized advances of $132.5 million to the Corporation for the calendar year 1971 in respect of: housing and land development projects undertaken jointly with the governments of the provinces; loans to municipalities for the construction or expansion of sewage treatment projects; and loans made to assist in the implementation of an urban renewal scheme, and for the acquisition, development, construction or improvement of land and buildings. Urban Affairs and Housing Vote 5 provided $65,800,000 to reimburse the Corporation for the calendar year 1971: for expenditures on housing research and community planning; for the amounts of loans for sewage treatment projects forgiven to a province, municipality or municipal sewerage corporation; for contributions made for an urban renewal scheme or pursuant to an urban renewal agreement; for losses resulting from the operation of public housing projects; for Cité du Havre (in Montreal) operating expenditures; and for losses on sale of mortgages.

The Crown's equity in the Corporation, $5,649,000,000 at December 31, 1971, comprised: capital stock, $25,000,000; general reserve, $5,000,000; loans to the Corporation, $5,609,000,000; and net income for the year and profit on sale of assets, transferred to the credit of the Receiver General subsequent to year-end, $10,000,000. In addition, the Corporation, as required by the National Housing Act, has established three funds.

MORTGAGE INSURANCE FUND. Mortgage loans, made by banks, life insurance companies and other approved lenders, may be insured by the Corporation. In cases where loans are insured, insurance fees, varying from 7/8% to 1 1/4% on the amount of the loans, are collected from borrowers and credited to the Fund. The Corporation has statutory authority to invest moneys held by the Fund in obligations of, or guaranteed by, Canada. Credits to the Fund during the year ended December 31, 1971, comprised: insurance fees, $16,361,000; income from securities, including net loss on realization, $13,392,000; real estate acquired on claims, $7,034,000; and income from mortgages, $4,930,000. Where the holder of an insured mortgage loan acquires title to the mortgaged property by foreclosure, title may be conveyed to the Corporation. In such a case, the Corporation pays the lender the principal owing on the mortgage, arrears of interest and expense incurred. The Fund is charged with the amounts involved. During the year, the Fund was charged with: claims paid and legal expenses, $7,389,000; provision for revaluation of real estate, $1,118,000; administrative expenses, $565,000; and net loss on operation and disposal of real estate, $93,000. At December 31, 1971, there was a balance of $311,420,000 in the Mortgage Insurance Fund.

HOME IMPROVEMENT LOAN INSURANCE FUND. The Act stipulates that all home improvement loans made under it shall be guaranteed by the Corporation and all lenders are required to collect from the borrowers and remit to the Corporation an insurance fee of 1% of the amount of the loan. The Corporation is permitted to invest any part of the Fund in obligations of, or guaranteed by, Canada. During the year the Fund was credited with: insurance fees, $199,000; income from securities, including net profit on realization, $197,000; income from mortgages, $11,000; real estate acquired on claims, $3,000; and recoveries on claims paid, $216,000. The Fund was charged with: claims paid and legal expenses, $482,000; net loss on operation and disposal of real estate, $15,000; and administrative expenses, $114,000. At December 31, 1971, the balance in the Fund was $3,737,000.

RENTAL GUARANTEE FUND. Under the Act the Corporation may guarantee an annual return of rentals to builders of housing projects, the amount of the return being determined by the Corporation, for a period not exceeding thirty years. Insured builders are required to pay to the Corporation, during each year of the guarantee, a fee varying according to the period of the guarantee from 1 3/4% to 2 1/4% of the return of rentals guaranteed. The Corporation is permitted to invest any part of the Fund in obligations of, or guaranteed by, Canada. During the year the Fund was credited with: premiums, $103,000; income from securities, including net loss on realization, $290,000; net profit on operation of real estate, $47,000; and other income, $23,000. There were no charges to the Fund and at December 31, 1971, the balance was $6,504,000.

The following is a summary of the results of the Corporation's operations for the past two years:

		Year ended December 31 1971	1970
Income—			
Loans:			
Interest earnedfrom borrowers	$ 327,186,000		$ 274,264,000
Interest charged by Canada	290,320,000		238,055,000
		$ 36,866,000	36,209,000
Federal-provincial agreements:			
Interest earned on agreements	13,607,000		11,243,000
Interest charged by Canada	13,134,000		11,139,000
		473,000	104,000
Agreements for sale and mortgages:			
Interest earned from purchasers	4,292,000		4,699,000
Interest charged by Canada	987,000		1,082,000
		3,305,000	3,617,000
Real estate—Corporation owned:			
Rental revenue from tenants	10,359,000		10,067,000
Maintenance and other property expense, including interest charged by Canada	12,427,000		11,218,000
		(2,068,000)	(1,151,000)
Application fees earned on mortgage loans		4,975,000	3,044,000
Fees earned for services to government departments		1,201,000	1,062,000
Other		2,157,000	2,145,000
		46,909,000	45,030,000
Expense—			
Salaries and employee benefits	23,415,000		19,369,000
Other	8,220,000		7,209,000
Losses on insured corporation loans	16,000		35,000
		31,651,000	26,613,000
Net income before income tax		15,258,000	18,417,000
Income tax		7,826,000	9,497,000
Net income		7,432,000	8,920,000
Proceeds from sale of assets acquired without cost from Canada		2,360,000	2,667,000
Net income for the year and proceeds from sales, transferred to Receiver General for Canada		$ 9,792,000	$ 11,587,000

Corporation employees numbered 2,476 at December 31, 1971, compared with 2,241 the year before.

The Central Mortgage and Housing Corporation Act provides that the responsible Minister, with the approval of the Governor in Council, shall appoint two auditors to hold office for a term not exceeding two years to audit the affairs of the Corporation.

366. *Industrial Development Bank.* This Bank was established in 1944 by the Industrial Development Bank Act, *R.S., c. I-9,* to aid industrial enterprises in Canada that need financial assistance but are unable to obtain it from other sources on reasonable terms. The Bank is under the management of a Board of Directors composed of the Directors of the Bank of Canada and the Deputy Minister of Industry, Trade and Commerce. The head office is in Ottawa. During the year seven additional branch offices were opened and, at September 30, 1971, there were 39 branch and five regional offices across Canada.

The authorized capital of the Bank is 750,000 shares having a par value of $75 million. The Act requires that the Bank of Canada subscribe for all the share capital and pay the amount subscribed at such times and in such amounts as the Board of Directors of the Industrial Development Bank may determine. During the year $2 million in share capital was issued. The Industrial Development Bank is required to establish a reserve fund to be credited with its annual operating profits until such time as the balance equals the paid-up capital. At September 30, 1971, the Bank's fiscal year-end, the equity of the Bank of Canada in the Industrial Development Bank, $523,719,000, comprised: paid-up capital, $55,000,000; reserve fund, $23,219,-000; and loans, $445,500,000.

The following is a summary of the Bank's income and expense for the past two years:

	Year ended September 30	
	1971	1970
Income—		
Interest	$ 47,502,000	$ 38,251,000
Other	1,240,000	625,000
	48,742,000	38,876,000
Expense—		
Salaries and employee benefits	8,881,000	7,658,000
Rental and other costs—leased premises	1,035,000	901,000
Travel and transfer	547,000	436,000
Office supplies, etc.	410,000	340,000
Telephone and telegrams	275,000	231,000
Advertising and public information	259,000	237,000
Investigation and supervision	184,000	141,000
Depreciation on equipment	140,000	108,000
Other	144,000	125,000
	11,875,000	10,177,000
Interest on debentures	30,730,000	26,102,000
Provision for doubtful accounts	4,158,000	2,097,000
	46,763,000	38,376,000
Net income—transferred to reserve fund	$ 1,979,000	$ 500,000

The number of employees averaged 775 in 1971 compared with 731 in 1970. Loans and investments increased to $543,147,000 at September 30, 1971, from $487,-486,000 at the end of the previous year.

The Act provides that the affairs of the Bank shall be audited by the two auditors appointed by the Governor in Council to audit the affairs of the Bank of Canada.

Departmental Operating Activities

367. Departmental operating activities cover a wide variety of trading and servicing operations but there are no statutory directions in the Financial Administration Act regarding the preparation of annual financial statements for these activities similar to those prescribed for Crown corporations. For a number of years (paragraph 325 of our 1971 Report) we have been advocating that financial statements be prepared to reflect the overall operating results of these activities in a clear and concise manner.

In order to provide Parliament with a clear understanding of the true financial results of the activities, the statements should be on an accrual basis as recommended by the Royal Commission on Government Organization and should include depreciation charges on buildings and equipment, interest on funds employed, and the value of services provided without charge by other government departments. The operating results shown by the statements should be reconciled with those recorded on a cash basis. Each balance sheet, which the Auditor General would be prepared to examine and report on, should show clearly the year-end position of the activity.

The Royal Commission on Government Organization also recommended greater use of revolving funds and accountable advances to encourage the use of business-type budgeting and production of meaningful operating statements to assist Parliament and aid management in the control of its costs.

The Treasury Board Secretariat issued a circular letter in January 1970 setting out regulations concerning the establishment and operation of revolving funds and working capital advances. It points out that the operations of revolving funds should be self-sustaining with total costs recovered in the charges made for services rendered. These costs are to include not only direct outlays for salaries, materials and supplies, but also a provision for replacement of capital facilities, interest on outstanding capital advances and costs of common services provided by other agencies. The circular letter also stipulates that the accounting systems are to be on an accrual basis whenever necessary and must provide cost accounting and other records which will permit the production of manufacturing and trading statements and balance sheets equivalent to those expected for similar operations in the private sector. At the end of each fiscal year a balance sheet, an operating statement and a statement of the disposition of the surplus or deficit are to be prepared and submitted to the Auditor General for certification.

Some progress has been made as is indicated by the statements of trading and servicing activities of departments and agencies summarized in the paragraphs which follow.

368. *Agricultural Products Board.* This Board, which operates under the authority of the Agricultural Products Board Act, *R.S., c. A-5,* consists of a chairman and two members appointed by the Governor in Council. The Act empowers the Board, under the direction of the Minister of Agriculture and subject to approval of the Governor in Council, to buy, sell or import, and to store, transport or process agricultural products. The Agricultural Products Board Account was established in the Consolidated Revenue Fund in accordance with section 5 of the Act and all financial transactions of the Board are recorded in this Account. The Board's activities are administered by personnel of the Department of Agriculture and the members of the Board also serve on the Agricultural Stabilization Board.

The Crown's equity in the Account at March 31, 1972, was $1,586,000 represented by inventories of poultry and egg powder, $1,620,000, and accounts receivable, $43,000, less contractors' security deposits, $77,000.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1972	1971
Trading operations—		
Sales	$ 516,000	$ 532,000
Cost of sales	1,037,000	930,000
Loss on trading operations	521,000	398,000

—by commodities, 1971-72—

	Sales	Cost of sales	Loss
Apple concentrate	$ 237,000	$ 617,000	$ 380,000
Turkeys	43,000	145,000	102,000
Eggs and egg powder	235,000	273,000	38,000
Chicken broilers	1,000	2,000	1,000
	$ 516,000	$ 1,037,000	$ 521,000

	1972	1971
Interest on working capital	62,000	—
Administration	26,000	2,000
Loss for the year	$ 609,000	$ 400,000
Loss for the year provided for by—		
Agriculture Vote 15	$ 521,000	$ 398,000
Agriculture Vote 10	24,000	—
Government departments which provided major services without charge	64,000	2,000
	$ 609,000	$ 400,000

A note to the Board's balance sheet at March 31, 1972, disclosed that the Board expected to suffer a loss of an estimated $300,000 on disposal of its inventory of frozen turkeys which was included in its accounts at a cost value of $1,073,000. (See paragraph 270 of this Report.)

369. *Agricultural Stabilization Board.* This Board, consisting of three members appointed by the Governor in Council, was established by the Agricultural Stabilization Act, *R.S., c. A-9,* and is responsible for stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilization measures take the form of the purchase of commodities at prescribed prices, payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold, or payments to processors for the benefit of producers. The activities of the Board are financed by the Agricultural Commodities Stabilization Account which has been established in the Consolidated Revenue Fund in accordance with section 13 of the Act. The net losses on the operations of the Account and the administrative expenses of the Board are met from moneys appropriated by Parliament for the purpose.

There were no inventories at March 31, 1972, and the Crown had no equity in the Account at that date.

The results of the Board's activities for the past two years are summarized as follows:

	Year ended March 31	
	1972	1971
Payments to the Canadian Dairy Commission for stabilization of the price of milk for the benefit of producers	$ 109,000,000	$ 125,000,000
Deficiency payments—		
Hogs	10,763,000	—
Sugar beets	746,000	1,067,000
Blueberries	216,000	—
Carrots	128,000	—
Wool	103,000	402,000
Rutabagas	79,000	—
	12,035,000	*1,469,000*
Payments under potato price support program (net after recoveries of $60,000)	953,000	—
Administration—		
Salaries and employee benefits	403,000	378,000
Part-time management and support services	92,000	47,000
Accommodation	28,000	24,000
Accounting and postal services	17,000	17,000
Other expenses	45,000	25,000
	585,000	*491,000*
	122,573,000	126,960,000
Deduct: Forfeiture of contractor's security deposit in settlement of claim	—	74,000
Expenditure for the year	$ 122,573,000	$ 126,886,000
Expenditure for the year provided for by—		
Agriculture Vote 15	$ 121,985,000	$ 126,395,000
Agriculture Vote 10	399,000	355,000
Government departments which provided major services without charge	189,000	136,000
	$ 122,573,000	$ 126,886,000

The hog deficiency payments program and the potato price support program were initiated during the year to shore up sagging prices in 1971. The hog program consisted of payments of $5 per hog to a maximum of $1,000 per farmer. Under the potato program the Board entered into agreements with farmers to purchase a maximum of 1,333 hundredweight of Canada Grade 1 potatoes per farmer at $1.50 per hundredweight.

370. *Agriculture Revolving Fund.* Agriculture Vote 783, Appropriation Act No. 5, 1955, *1955, c.60*, authorized the operation of a revolving fund for the purposes of financing the production of new and improved varieties of seeds and the acquisition, maintenance and development for experimental purposes of livestock, poultry and eggs, including administrative expenses of all authorized projects. The amount outstanding is not to exceed $1,820,000.

The Crown's equity in the Fund at March 31, 1972, was $427,000 represented by inventories of livestock, poultry, seeds and supplies, $436,000, and accounts receivable, $73,000, less accounts payable, $82,000.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1972	1971
Cost of experimental and development projects—		
Salaries and wages	$ 304,000	$ 469,000
Employee benefits	41,000	55,000
Livestock	426,000	353,000
Accommodation	236,000	137,000
Feed and other supplies	121,000	170,000
Seed	119,000	65,000
Rentals of land and equipment	97,000	267,000
Interest on working capital	57,000	29,000
Administration	36,000	65,000
Miscellaneous	69,000	36,000
	1,506,000	1,646,000
Less:		
Proceeds from sales of livestock, seeds and poultry	1,318,000	635,000
(Decrease) increase in inventories	(204,000)	366,000
	1,114,000	1,001,000
Net cost of projects	$ 392,000	$ 645,000
Net cost of projects provided for by—		
Agriculture Vote 10	$ 175,000	$ 359,000
Agriculture Vote 5	125,000	95,000
Government departments which provided major services without charge	345,000	225,000
	645,000	679,000
Less: Amount transferred from the Revolving Fund as revenue	253,000	34,000
	$ 392,000	$ 645,000

The reduction of $165,000 in salaries and wages results from a change in the Department's method of allocating departmental salaries to the Revolving Fund activities.

The increase of $99,000 in accommodation is due to increased stable and storage costs in connection with the livestock development program.

The $170,000 reduction in rentals of land and equipment is due to termination of the rapeseed experimental project in the early part of 1971-72.

371. *Airport operations.* The recorded capital investment of the Department of Transport in airports and associated facilities, including aircraft, aircraft spares and special equipment, as at March 31, 1972, was $998,710,000 compared with $870,574,000 at the end of the preceding year, an increase of $128,136,000.

The following is a summary of the revenue from civil aviation airport operations for the past two years:

	Year ended March 31	
	1972	1971
Aircraft landing fees—		
Trans-oceanic	$ 9,099,000	$ 9,096,000
Domestic	8,262,000	8,165,000
Trans-border	3,052,000	3,015,000
Other	67,000	41,000
	20,480,000	*20,317,000*
Concessions—		
Gasoline and oil	9,728,000	7,867,000
Car parking	5,300,000	4,654,000
Restaurants and snack bars	1,420,000	1,440,000
Car rental	1,340,000	1,304,000
Other	3,235,000	2,789,000
	21,023,000	*18,054,000*
Rentals—		
Office and shop space	3,369,000	3,299,000
Land	2,468,000	2,067,000
Living quarters	1,218,000	1,163,000
Hangar	149,000	184,000
Other	1,706,000	857,000
	8,910,000	*7,570,000*
Joint user terminal facilities charges—		
International	3,261,000	3,506,000
Domestic	2,892,000	3,355,000
	6,153,000	*6,861,000*
Other	4,473,000	4,229,000
Total revenue	61,039,000	57,031,000
Expenditure recovered from Airports Revolving Fund	1,580,000	1,400,000
Total revenue, and expenditure recovered	$ 62,619,000	$ 58,431,000

The amount of $1,580,000 included as revenue in the form of expenditure recovered from the Airports Revolving Fund represents the estimated cost of certain services supplied by the Department in respect of the Montreal and Toronto International Airports. This is not revenue but is a distribution of the Department's costs and as such is an offset to the amount charged to the Department's Air Services appropriations.

Operating and maintenance expenditure for the year 1971-72 amounted to $58,869,000 of which $40,458,000 was charged to airports and associated ground services (Transport Vote 25) and $18,411,000 applicable to the Montreal and Toronto International Airports was charged to the Airports Revolving Fund established by Transport Vote L160, Appropriation Act No. 3, 1969, *1968-69, c.36*. The total expenditure of $58,869,000 was $11,059,000 greater than the corresponding figure of $47,810,000 for the preceding year.

Of the revenue of $61,039,000 arising from airport operations, $28,558,000 was credited to airports and associated ground services and $32,481,000 to the Airports Revolving Fund. The total revenue of $61,039,000 was $4,008,000 in excess of the corresponding figure of $57,031,000 for the preceding year.

The revenue arising from airport operations exceeded expenditure (excluding new construction) by $2,170,000 compared with $9,221,000 in the preceding year. Both the revenue and expenditure for 1971-72 applicable to airports and associated ground services are understated by $324,000 (see paragraph 218 of this Report), and similarly the revenue and expenditure of the Airports Revolving Fund are understated by $554,000, as a result of recording the net revenue only from parking and other operations at certain airports.

The operating results are recorded on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration. The Department does, however, maintain accounts on an accrual basis for its operations at 17 of the major airports which together account for 81% of the revenue from civil aviation airport operations, and prepares periodic financial statements for management purposes.

In addition, there appear on page 25.19 of Volume II of the Public Accounts "Consolidated statements of operating results and investment position for 210 airports covering the fiscal years ended March 31, 1972, and March 31, 1971". These statements, which include provision for depreciation, interest on investment, administrative overhead, and employee benefits, show that the Department incurred a loss of $67,557,000 on operations for the year, an increase of $6,620,000 over the loss of $60,937,000 for the preceding year. The statements were not submitted to the Auditor General for certification.

372. *Airports Revolving Fund.* The Department of Transport working capital account—Airports Revolving Fund—was authorized by Transport Vote L160, Appropriation Act No. 3, 1969, *1968-69, c.36,* for the purpose of the operation and development of the Montreal and Toronto International Airports and such other airports as the Treasury Board may approve. The Fund is to be credited with moneys received from the operation of the airports and loans made by the Minister of Finance for the purpose of financing capital expenditures and charged with operating expense, capital expenditures and loan repayments including interest. The amount outstanding is not to exceed $3,000,000. However, the Fund is financed entirely with loan funds and revenue and no use is being made of the financing provisions of Vote L160 of 1968-69.

Transactions in the Airports Revolving Fund to date relate solely to the operation of Montreal and Toronto International Airports and the development of the new Ste. Scholastique and Toronto II International Airports.

The Crown's equity in the Airports Revolving Fund at March 31, 1972, was $288,623,000 comprising loans from Canada for capital purposes, $136,806,000, assets financed from parliamentary appropriations prior to April 1, 1969, $116,418,000, and surplus, $35,399,000.

Assets financed from parliamentary appropriations prior to April 1, 1969, include $2,530,000 in working capital representing the net amount owing to the Department of Transport on March 31, 1969, prior to the establishment of the Fund. As this amount was not due to the Fund, it should have been credited to departmental revenue as received. We would suggest that this amount be transferred from the Revolving Fund as revenue of the Department. The retention of this amount in the Fund has the effect of providing funds additional to the amount which Parliament has authorized to be advanced to the Fund for working capital, which at any time may not exceed $3,000,000.

The terms and conditions in respect of the loans obtained for capital purposes, totalling $136,806,000 at March 31, 1972, provide that each loan is due and payable twenty years from the date the loan is made while at the same time indicating that annual payments equivalent to the annual depreciation charged in the accounts or such other amount as is established by the Treasury Board, having regard to the operations during the previous fiscal year, are contemplated. No annual payments have been made, the provision for depreciation together with the accumulated surplus currently being committed to the acquisition of capital assets.

Loans authorized and amounts advanced to the Fund since its inception on April 1, 1969, are as follows:

	Authorized	Advanced
Transport Vote L165, 1969-70	$ 15,094,000	$ 5,126,000
Transport Vote L45, 1970-71	67,829,000	41,205,000
Transport Vote L35, 1971-72	130,008,000	90,475,000
	$ 212,931,000	$ 136,806,000

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1972	1971
Income—		
Landing fees	$ 13,120,000	$ 12,362,000
Concessions	7,295,000	6,661,000
Rental	6,896,000	6,493,000
Aviation fuel charges	3,912,000	4,194,000
Service fees and miscellaneous	1,023,000	508,000
Utility recoveries	538,000	384,000
	32,784,000	30,602,000
Operating expense—		
Salaries and wages	5,507,000	4,199,000
Employee benefits	1,216,000	840,000
Operation and maintenance	6,352,000	5,066,000
Depreciation	5,330,000	5,242,000
Grants in lieu of taxes	2,937,000	2,752,000
Headquarters and regional overhead	2,610,000	2,500,000
	23,952,000	20,599,000
Net operating income	8,832,000	10,003,000
Loan interest expense	1,183,000	230,000
Net income, retained in the Fund	$ 7,649,000	$ 9,773,000

373. *Bureau of Staff Development and Training Revolving Fund.* Secretary of State Vote L120, Appropriation Act No. 3, 1971, *1970-71-72, c.46*, authorized the operation of a revolving fund by the Bureau, a branch of the Public Service Commission, for the purpose of providing staff training. The amount outstanding is not to exceed $700,000.

The Crown's equity in the Fund at March 31, 1972, was $134,000 represented by capital assets, $142,000, less accounts payable, $8,000.

A summary of operations for the year follows:

Income—		
Course fees and services	$ 2,082,000	
Accommodation and catering	401,000	
		$ 2,483,000

Expense—		
Salaries, wages and employee benefits	$ 1,235,000	$
Professional and special services	519,000	
Rental of accommodation	402,000	
Catering and housekeeping	229,000	
Material and supplies	132,000	
Travel and communication	79,000	
Course development	69,000	
Depreciation	58,000	
Rental of equipment	34,000	
Maintenance and repairs	26,000	
Interest	4,000	
Sundries	16,000	
		2,803,000
Loss for the year		$ 320,000

The loss of $320,000 includes $150,000 relating to courses which were cancelled because there was not sufficient interest in them and $80,000 resulting from an error in calculating the superannuation cost to be included in course fees which are established on a cost-recovery basis.

Additional expenditure of $230,000 on course development was included on the Bureau's Balance Sheet at March 31, 1972, as a deferred charge to be amortized over the next three years.

374. *Canada Pension Plan Account.* The Canada Pension Plan, *R.S., c. C-5,* provides for a comprehensive program of contributory old age pensions and supplementary benefits for most persons in the work force in Canada, whether employees or self-employed, with the exception of those in the Province of Quebec who are covered by a parallel provincial plan.

Section 110 of the Act established the Canada Pension Plan Account within the accounts of Canada to which all contributions, interest and other amounts received under the Plan are credited and to which benefits and other payments under the Plan, including administration costs, are charged. Section 111 of the Act established the Canada Pension Plan Investment Fund, also within the accounts of Canada, in which investments in provincial and federal securities are recorded.

The Act requires the Minister of National Health and Welfare to make an annual report to Parliament on the administration of the Act, including a statement showing amounts credited to or charged to the Canada Pension Plan Account and the Canada Pension Plan Investment Fund during the year. There is no requirement in the Act for the Auditor General to report upon this statement although such a provision would appear desirable. However, as both the Canada Pension Plan Account and the Canada Pension Plan Investment Fund form part of the accounts of Canada, they are examined by the Auditor General under the provisions of sections 58 and 60 of the Financial Administration Act. This examination includes a verification, by test, of transactions in the two accounts, a review of accounting and

internal control procedures and confirmation of the investments of the Fund at the year-end.

The following is a summary of the transactions in the Canada Pension Plan Account for the past two years:

	Year ended March 31	
	1972	1971
Balance at beginning of year	$ 3,843,577,000	$ 2,932,258,000
Receipts—		
Contributions from employers and employees	826,011,000	812,867,000
Interest on investments	272,596,000	202,659,000
Interest on the operating balance	2,998,000	3,987,000
Other income	544,000	549,000
	1,102,149,000	1,020,062,000
Disbursements—		
Benefit payments:		
Retirement pensions	62,575,000	39,832,000
Widows pensions	35,622,000	24,371,000
Orphans benefits	16,063,000	11,533,000
Disability pensions	15,956,000	3,237,000
Death benefits	10,787,000	9,528,000
Disabled contributor child benefits	3,353,000	711,000
Disabled widowers pensions	23,000	24,000
	144,379,000	*89,236,000*
Administration expense	22,888,000	19,507,000
	167,267,000	108,743,000
Excess of receipts over disbursements	934,882,000	911,319,000
Balance at end of year	$ 4,778,459,000	$ 3,843,577,000
This balance comprised—		
Investment Fund	$ 4,611,303,000	$ 3,701,275,000
Operating balance	167,156,000	142,302,000
	$ 4,778,459,000	$ 3,843,577,000

Transactions are recorded in the Account on a cash basis and hence no amount has been included for contributions relating to periods prior to March 31, 1972, but received after the year-end or for accrued interest of $90,718,000 on investments.

The item "Other income" comprises: $314,000 received from the Quebec Pension Plan, of which $219,000 was its share of benefits paid to dual contributors and $95,000 was its share of costs of registration of employees; $150,000 received for the cost of melding old age security and guaranteed income supplement payments with those of the Canada Pension Plan; and $80,000 for electronic data processing services performed for others.

The following table shows the number of benefits in payment at the end of each of the past two years:

	March 31, 1972	March 31, 1971
Retirement pensions	218,323	171,601
Widows pensions	51,361	35,779
Orphans benefits	50,202	38,666
Disability pensions	11,842	3,236
Disabled contributor child benefits	8,080	2,346
Combined pensions	619	200
Disabled widowers pensions	34	25
	340,461	251,853

During the year 23,113 lump-sum payments of death benefits were made, compared with 21,537 in the previous year.

The following schedule shows the administration expense charged to the Account with respect to services provided to the Plan:

	Department of National Revenue (Taxation)	Department of National Health and Welfare	Department of Supply and Services	Unemployment Insurance Commission	Department of Insurance	Total
Salaries	$ 6,894,000	$ 5,251,000	$ 1,439,000	$ 236,000	$ 37,000	$ 13,857,000
Employee benefits	1,347,000	780,000	208,000	26,000	—	2,361,000
Office expense, stationery and equipment	526,000	193,000	1,166,000	63,000	—	1,948,000
Accommodation	901,000	676,000	156,000	52,000	—	1,785,000
Travel	490,000	304,000	9,000	—	—	803,000
Advertising	329,000	25,000	—	—	—	354,000
Other	338,000	739,000	629,000	61,000	13,000	1,780,000
	$ 10,825,000	$ 7,968,000	$ 3,607,000	$ 438,000	$ 50,000	$ 22,888,000

Administration expense increased by $3,381,000 from $19,507,000 in 1970-71 to $22,888,000 in 1971-72, comprising increases of $2,069,000 for salaries and employee benefits, $369,000 for office expense, stationery and equipment, $241,000 for accommodation, $49,000 for travel, $680,000 for other expenses, and a decrease of $27,000 for advertising.

A review and audit of all charges made to the Canada Pension Plan Account by other departments and agencies is to be made by internal audit groups of the servicing departments and agencies. The Management Review Directorate of the Department of National Health and Welfare is responsible for ensuring that a proper review and audit is made. During the year, the Directorate made an examination of the administration expense charged against the Plan in 1970-71 and the estimated charges for 1971-72. Its examination disclosed that the method of

calculating administration expense charged to the Plan by the Department of National Revenue (Taxation) continued to be inadequate. No adjustment of these charges has yet been made.

The Act restricts the investments of the Plan to securities of Canada or the provinces, or securities guaranteed by the provinces, which are not negotiable, transferable or assignable. The amount available for investment at each month-end is determined by deducting from the uninvested balance in the Account the estimated amount required to meet all payments during the following three months. This amount is allocated monthly to the various provinces in the ratio that contributions originating in each province bear to the total of all contributions. Any balance not required for the purchase of securities offered by a province is to be invested in securities of Canada. The rate of interest on securities purchased for the Investment Fund is determined, at the time of purchase, by the average market yield of outstanding negotiable bonds of Canada which are twenty years or more from maturity.

At March 31, 1972, securities of Canada and the provinces bearing interest at rates varying from 5.29% to 8.33% were held as follows:

Ontario	$ 2,560,735,000
British Columbia	667,063,000
Alberta	428,252,000
Manitoba	271,547,000
Saskatchewan	217,421,000
Nova Scotia	178,451,000
New Brunswick	135,631,000
Newfoundland	87,918,000
Quebec	19,445,000
Prince Edward Island	17,479,000
Canada	27,361,000
	$ 4,611,303,000

Judges and members of the Canadian Forces and the Royal Canadian Mounted Police employed in the Province of Quebec are excluded from participation in the Quebec Pension Plan but have been brought under the Canada Pension Plan. As their employment is in the Province of Quebec, their contributions to the Canada Pension Plan, and those of their employer, have been allocated to that Province, which accounts for the investments in securities of the Province of Quebec.

The financial statements of the Canada Pension Plan Account were not submitted to the Auditor General for certification.

375. *Canadian Government Elevators.* The Canadian Government Elevators comprise six elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and Prince Rupert. To March 31, 1971, the Elevators were operated by the Board of Grain Commissioners for Canada under the authority of the Canada Grain Act, *R.S., c. G-16*, and Order in Council P.C. 1372 of August 19, 1925. Since April 1,

1971, the Elevators have been operated by the Canadian Grain Commission under authority of section 12 of the Canada Grain Act, *1970-71-72, c.7*, and Order in Council P.C. 1971-455 of March 9, 1971. The Minister of Agriculture is the responsible Minister.

The Crown's equity in the Elevators at March 31, 1972, was $15,942,000 represented by fixed assets, $14,836,000, and working capital, $1,106,000.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1972	1971
Income—		
Elevation	$ 1,043,000	$ 914,000
Storage	851,000	1,130,000
Screenings and surplus grain	328,000	281,000
Cleaning	267,000	219,000
Drying	29,000	66,000
Other	103,000	97,000
	2,621,000	2,707,000
Expense—		
Salaries and wages	1,460,000	1,336,000
Employee benefits	208,000	224,000
Grants in lieu of taxes	424,000	392,000
Heat, light, power and water	152,000	148,000
Purchases of screenings	126,000	39,000
Head office	125,000	96,000
Building and equipment repairs and maintenance	101,000	92,000
Grain shortages on weigh-overs	57,000	92,000
Accounting services	16,000	2,000
Other	55,000	69,000
	2,724,000	2,490,000
Operating loss (profit) without provision for depreciation	$ 103,000	$ (217,000)
Operating loss (profit) provided for as follows:		
Income transferred or to be transferred to the Receiver General	$ 2,621,000	$ 2,670,000
Expense charged to—		
Agriculture Vote 25	2,506,000	2,245,000
Less:		
Fixed assets acquired	5,000	—
Stores acquired for inventories	1,000	18,000
	6,000	*18,000*
	2,500,000	2,227,000
Appropriations of departments which provided certain major services without charge	224,000	226,000
	2,724,000	2,453,000
	$ 103,000	$ (217,000)

Increased receipts of grain during the year from 18.3 million bushels in 1970-71 to 21.9 million bushels account largely for the increase of $129,000 in elevation income.

The reduction in income from storage results from a drop in the quantities of grain in storage and from grain being stored in 1971-72 for shorter periods of time.

A loss of $136,000 during the year by the Lethbridge elevator was the twenty-seventh consecutive annual loss, the accumulated losses totalling $1,589,000.

376. *Canadian Government Photo Centre.* The Photo Centre, a branch of the National Film Board, provides printing and processing services to government departments and agencies and produces black and white and colour still photographs. Its operations are financed by means of a revolving fund established by Secretary of State Vote L90, Appropriation Act No. 3, 1971, *1970-71-72, c.46.* The amount outstanding at any time may not exceed $450,000. Prior to the establishment of this Revolving Fund, the operations of the Photo Centre were financed through the National Film Board Operating Account and were included in the operating results of the Board.

The Crown's equity in the Canadian Government Photo Centre Revolving Fund at March 31, 1972, was $142,000 comprising capital assets, $139,000, inventories, $43,000, accounts receivable from outsiders, $2,000, and commercial accounts payable and accrued liabilities, $42,000.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1972	1971
Sales	$ 633,000	$ 542,000
Expense—		
Salaries, wages and employee benefits	381,000	300,000
Raw materials, freight and express	112,000	116,000
Accommodation	89,000	—
Provision for replacement of capital assets	24,000	23,000
Special services	20,000	31,000
Printing and processing in other laboratories	20,000	13,000
Interest on advances	10,000	—
Equipment repairs and maintenance	5,000	8,000
Prior years' adjustments	—	28,000
Other	11,000	18,000
	672,000	537,000
Net loss (profit) for the year	$ 39,000	$ (5,000)

The increase of $135,000 in expense was mainly due to the Photo Centre being required for the first time to pay for accommodation, $89,000, employee benefits, $26,000, and interest on advances, $10,000. As an activity financed by the National Film Board Operating Account in prior years, the Photo Centre was not charged for accommodation, employee benefits and interest because the Board was not required to pay these costs.

377. *Canadian Government Printing Bureau.* The Bureau, which is part of the Department of Supply and Services, operates the printing plant in Hull, Que., and small printing units across Canada. Its operations are financed by means of a revolving fund established by Vote L104b, Appropriation Act No. 1, 1969, *1968-69, c.23.* The amount outstanding is not to exceed $8 million.

The Crown's equity in the Canadian Government Printing Bureau Revolving Fund at March 31, 1972, was $3,306,000 represented by inventories of work in process and printing metals and supplies, $2,151,000, and capital assets, $2,782,000, less commercial accounts payable and accrued liabilities of $1,627,000.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1972	1971
Sales—		
Main printing plant	$ 13,209,000	$ 11,262,000
Sub-printing plants	13,902,000	9,861,000
Commercial plants	7,715,000	1,205,000
Sundry	345,000	405,000
	35,171,000	22,733,000
Cost of sales—		
Direct materials	4,715,000	5,003,000
Direct labour	9,077,000	7,970,000
Other factory expenses	10,234,000	6,387,000
Work contracted	7,715,000	1,205,000
Work-in-process	(306,000)	(129,000)
	31,435,000	*20,436,000*
Administration expense	2,993,000	1,335,000
Equipment purchases	—	368,000
	34,428,000	22,139,000
	743,000	594,000
Prior years' adjustment	163,000	—
Discounts earned	44,000	36,000
Net profit for the year	$ 950,000	$ 630,000

The increase of $12,438,000 in sales was due to an increased volume of business, to the inclusion of printing formerly recorded through a revolving fund used for paying for the printing of publications by commercial printers, and to higher prices to cover the costs of the following common services which in previous years were charged to appropriations of other government departments:

Superannuation, pension and other employer contributions	$ 2,053,000
Accommodation for plant facilities	1,396,000
Interest on working capital advance	381,000
Head office administration	370,000
Cheque issue services, postage and other costs	104,000
	$ 4,304,000

The increase of $1,658,000 in administration expense was mainly due to the inclusion for the first time of the common service costs charged in earlier years to appropriations of other departments.

Equipment purchased at a cost in excess of $8 million prior to April 1, 1971, from parliamentary appropriations and operating surpluses, was recorded during the year in the balance sheet of the Fund at an appraised value of $2,795,000 and equipment acquired during the year was recorded at cost. Depreciation of $625,000 based on the estimated life of the equipment was provided for in 1971-72.

The net profit of $950,000, and the balance of retained earnings of $912,000 from previous years' operations, have been retained in the Revolving Fund pursuant to Treasury Board authority to "carry forward to future years any operating surpluses up to a maximum amount equivalent to the total amount of the two best years' surpluses achieved during the previous five years".

378. *Canadian Government Supply Service.* This Service, a branch of the Department of Supply and Services, is financed by a revolving fund established by Vote L18e, Appropriation Act No. 4, 1966, *1966-67, c.6,* for the purpose of acquiring and managing stores; for manufacturing, producing, processing or dealing in stores or materials; for the purchase and supply of repair services for office furniture and equipment; and for freight services. The purposes of the revolving fund were extended by Vote L13g, Appropriation Act No. 2, 1967, *1966-67, c.85,* and Vote L22a, Appropriation Act No. 7, 1967, *1967-68, c.8,* to include the procurement of insurance coverage at bulk rates on the movement of household effects and the financing of the travel accounts rendered by carriers for services arranged by the Central Travel Service. The amount outstanding is not to exceed $20 million.

The Crown's equity in the Canadian Government Supply Service Revolving Fund at March 31, 1972, was $1,665,000 represented by inventories, $6,123,000, and motor vehicles, $7,000, offset by accounts payable to commercial suppliers of $4,465,000.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1972	1971
Disbursements for government departments and agencies on a recoverable basis	$ 17,865,000	$ 14,281,000
Supply operations for government departments and agencies—		
Sales	$ 22,240,000	$ 18,329,000
Other income	402,000	376,000
	22,642,000	18,705,000
Cost of sales	18,640,000	15,321,000
Warehousing and distribution	2,288,000	1,955,000

	Year ended March 31 1972	1971
Freight	$ 803,000	$ 520,000
Interest	484,000	—
Inventory shortages and obsolete materials	81,000	52,000
	22,296,000	17,848,000
Profit	346,000	857,000
Office equipment and furniture repair services for government departments and agencies—		
Service fees and charges	1,990,000	1,776,000
Cost of services	1,927,000	1,763,000
Profit	63,000	13,000
Net profit for the year	$ 409,000	$ 870,000

The increase of $3,584,000 in disbursements for government departments and agencies on a recoverable basis was due to the increased participation by departments and agencies in the central travel and freight services arrangements.

The net profits of $409,000, and of $870,000 for the previous year, have been retained in the Revolving Fund pursuant to Treasury Board authority to "carry forward to future years any operating surpluses up to a maximum amount equivalent to the total amount of the two best years' surpluses achieved during the previous five years".

Costs not charged to and recovered through the Revolving Fund include certain administrative costs applicable to all services financed through the Fund; depreciation on certain equipment; management, procurement, accounting and computer services costs relating to the supply operations; and the value of accommodation and other services provided without charge by government departments. These costs are estimated by the Department at $4,400,000.

379. *Canadian Grain Commission.* This Commission, formerly The Board of Grain Commissioners for Canada, consisting of a chief commissioner and two other commissioners appointed by the Governor in Council, is responsible for the administration of the Canada Grain Act, *1970-71-72, c.7.* The objects of the Commission are, in the interests of the grain producers, to establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, in order to ensure a dependable commodity for domestic and export markets. The responsible Minister is the Minister of Agriculture. The head office of the Commission is in Winnipeg, Man.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31 1972	Year ended March 31 1971
Expenditure—		
Salaries, wages and allowances	$ 8,487,000	$ 6,968,000
Employee benefits	1,203,000	1,019,000
Accommodation	290,000	258,000
Materials, supplies and office equipment	245,000	170,000
Transportation and communications	242,000	186,000
Travel	235,000	250,000
Scientific, technical, laboratory and other equipment	188,000	257,000
Rental of computer	95,000	47,000
Accounting services	95,000	11,000
Other	141,000	104,000
	11,221,000	9,270,000
Revenue—		
Inspection	4,281,000	3,865,000
Weighing	2,219,000	1,937,000
Registrations and cancellations	296,000	260,000
Licences	27,000	27,000
Other	2,000	2,000
	6,825,000	6,091,000
Excess of expenditure over revenue	$ 4,396,000	$ 3,179,000
Excess of expenditure over revenue provided for by—		
Agriculture Vote 25	$ 9,843,000	$ 8,179,000
Canada Grain Act, section 5 (salaries of Commissioners)	80,000	61,000
Government departments which provided certain major services without charge	1,298,000	1,030,000
	11,221,000	9,270,000
Less: Revenue	6,825,000	6,091,000
	$ 4,396,000	$ 3,179,000

Normal increases in salary rates and in casual labour to meet the increased movement of grain were the major causes of the increase in expenditure.

380. *Central Microfilm Unit Revolving Fund.* Public Archives Vote 529, Appropriation Act No. 6, 1956, *1956, c.32,* authorized the operation of a revolving fund for the purpose of producing, processing or dealing in microfilm. The amount outstanding may not exceed $80,000.

The Crown's equity in the Fund at March 31, 1972, was $164,000 represented by capital assets, $83,000; inventories, $15,000; accounts receivable from outsiders, $110,000; offset by accounts payable to outside suppliers, $44,000.

A summary of operations for the past two years follows:

	Year ended March 31	
	1972	1971
Sales	$ 637,000	$ 369,000
Cost of sales	287,000	157,000
	350,000	212,000
Administration and operation—		
Salaries, wages and employee benefits	188,000	136,000
Rental of equipment	56,000	—
Outside developing and printing	34,000	39,000
Accommodation	24,000	—
Maintenance and repairs	16,000	12,000
Depreciation	15,000	13,000
Other	8,000	5,000
	341,000	205,000
Net income for the year	$ 9,000	$ 7,000

In 1971-72 the Fund rented a computer-oriented microfilm processor and related equipment, at a cost of $56,000 that had no counterpart in 1970-71. Employee benefits of $25,000, accommodation costs of $24,000 and certain other costs formerly charged to appropriations of other government departments were paid by the Fund for the first time in 1971-72.

The net income of $9,000, and of $7,000 for the previous year, has been retained in the Revolving Fund with the authority of the Treasury Board.

381. *Computer Services Bureau.* This Bureau, a branch of the Department of Supply and Services, operates a working capital advance account authorized by Vote L99e, Appropriation Act, No. 4, 1966, *1966-67, c.6*, for the purpose of providing data processing and related services to government departments and agencies. The amount outstanding is not to exceed $2 million.

The Bureau had a deficit of $369,000 at April 1, 1971, which, together with the operating loss of $884,000 for the nine-month period ended December 31, 1971, was reimbursed by Supply and Services Vote 10b. A further deficit of $322,000 was incurred in the three-month period ended March 31, 1972. At this date the Crown's equity in the Bureau was $174,000 comprising: capital assets, $151,000; inventories, $24,000; travel advances, $1,000; and accounts payable to outside suppliers, $2,000.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1972	1971
Income—		
Bureau computer fees, rental of remote terminals, etc.	$ 2,348,000	$ 1,823,000
Programming services	246,000	367,000
	2,594,000	2,190,000
Expense—		
Rental of Bureau computer and equipment	1,495,000	1,271,000
Salaries and employee benefits	1,387,000	1,030,000
Rental of outside computers	224,000	207,000
Accommodation	179,000	86,000
Materials and supplies	125,000	93,000
Interest on advances	113,000	96,000
Professional services	101,000	174,000
Other	176,000	145,000
	3,800,000	3,102,000
Loss for the year	$ 1,206,000	$ 912,000

In addition to providing data processing to government departments, the Bureau acts as their agent for the rental of outside computers. In previous years the Bureau rented the outside computers and recovered the rent from the user departments, recording the costs and recoveries as expense and income in its accounts. During 1971-72, however, on instruction from the Treasury Board Secretariat, outside computer rentals were paid directly to the suppliers by the user departments. As a consequence, these charges were not recorded in the accounts of the Bureau in 1971-72. For purposes of comparison the amount of outside computer rentals, $2,908,000, and their recoveries in 1970-71 have been deleted from the figures for that year.

The increase of $294,000 (32%) in the loss for the year was caused by: rental of additional communication terminals and equipment for the electronic storage of information; hiring of more personnel and payment of retroactive salaries; and rental of additional space. We were informed that most of these additional expenditures were incurred to meet an anticipated increase in demand for the Bureau's services which did not fully materialize.

382. *Defence Production Revolving Fund.* Section 15 of the Defence Production Act, *R.S., c. D-2,* established the Defence Production Revolving Fund for the purpose of acquiring, storing, maintaining and transporting stocks of materials or defence supplies, and providing working capital loans and advances to persons engaged in defence work. The Fund is now operated by the Department of Supply and Services. The amount outstanding is not to exceed $100 million, a limit which has not been approached in recent years.

The Crown's equity in the Fund at March 31, 1972, was $2,194,000 represented by accounts receivable, $5,326,000, progress payments to suppliers recoverable from a customer, $24,000, holdings of strategic materials, $889,000; less accounts payable and accrued liability, $3,851,000, and advance payments from a customer, $194,000. The remainder of the Fund consists of advances and loans to suppliers, the repayment of which will be dependent for the greater part on payments to suppliers from appropriations, and amounts recoverable directly from departments.

The Fund's operations for the past two years are summarized as follows:

	Year ended March 31	
	1972	1971
Interest income	$ 701,000	$ 1,340,000
Profit on disposal of strategic materials	7,000	12,000
Net profit for the year, transferred from the Revolving Fund as revenue	$ 708,000	$ 1,352,000

A note to the financial statements discloses that at March 31, 1972, the Fund was committed to the acquisition of aircraft at an estimated cost of $49.2 million—now estimated at $48.3 million. (See paragraph 74 of this Report.) The resources intended to be used for this purchase appear to be:

Canadian Commercial Corporation:	
Proceeds of sale of other aircraft	$ 33,200,000
Sales tax rebate with respect to aircraft sold	2,000,000
Interest earned on funds withheld from Consolidated Revenue Fund	1,700,000
	36,900,000
National Defence appropriation	10,500,000
Not provided for	900,000
	$ 48,300,000

383. *Fisheries Prices Support Board.* This Board, consisting of not more than six members appointed by the Governor in Council, was established under the Fisheries Prices Support Act, *R.S., c. F-23.* The Board is responsible for investigating and, where appropriate, recommending action to support the prices of fisheries products, in an endeavour to secure a fair relationship between the returns from fisheries and those from other occupations. Support measures take the form of the purchase of a fisheries product by the Board at a prescribed price or the payment to a producer of the difference between a prescribed price and a lower average price at which a product is sold during a specified period. The Act requires that an account called the Fisheries Prices Support Account be maintained to which shall be charged all expenditures other than administrative costs, which are met out of moneys appropriated by Parliament for the purpose, and to which shall be credited the proceeds of sales of fisheries products. The Act also provides that the net operating profit in each fiscal year shall be deposited in the Consolidated Revenue Fund as revenue,

and that the net operating loss in any fiscal year may be recouped from moneys appropriated by Parliament for the purpose.

The Crown's equity in the Account at March 31, 1972, was $575,300 represented by an inventory of canned mackerel.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1972	1971
Trading operations—		
Sales	$ 510,200	$ 885,000
Cost of sales	496,500	880,100
Profit on trading operations	13,700	4,900

—by commodities, 1971-72—

	Sales	Cost of sales	Profit (loss)
Canned mackerel	$ 337,300	$ 324,800	$ 12,500
Lake Erie yellow perch	91,000	87,400	3,600
Queen crab	81,900	84,300	(2,400)
	$ 510,200	$ 496,500	$ 13,700

	1972	1971
Deficiency payments—		
Salted cod	245,000	23,000
Loss for the year	$ 231,300	$ 18,100

No request has been made to Parliament for an appropriation to recoup the Board's losses totalling $249,400 for the past two years.

The financial statements of the Board were not submitted to the Auditor General for certification.

384. *Fisheries Working Capital Advance.* Under the terms of the 1957 Interim Convention on Conservation of North Pacific Fur Seals, to which Canada, Japan, the Union of Soviet Socialist Republics and the United States of America are signatories, the United States harvests an average of 50,000 fur seals each summer on the Pribilof Islands, Alaska, and Canada receives 15% of this harvest of sealskins. The entire harvest is shipped to Seattle from where Canada's share is shipped to South Carolina for processing and then to Canada for sale by auction. Canada also receives a similar percentage of the sealskins harvested by the U.S.S.R. on the Commander Islands in the western Bering Sea and on Robben Island and the Kurile Islands in the Sea of Okhotsk. These skins are also processed in the United States and sold by auction in Canada. Fisheries Vote 542, Appropriation Act No. 3, 1953, *1952-53, c.54*, extended by Fisheries Vote 656, Appropriation Act No. 5, 1958, *1958, c.44*, authorized the establishment of a revolving fund for the purpose of financing

the transportation, dressing and dyeing and other expenses incidental to receiving and disposing of these sealskins. The amount outstanding may not exceed $500,000.

The Crown's equity in the Fund at March 31, 1972, was $8,200 represented by freight and packing costs relative to the 16,485 sealskins on hand at that date. This inventory of sealskins did not include approximately 500 skins held by a fur company for experimental processing.

A summary of the recorded results of operations for the past two years follows:

	Year ended March 31	
	1972	1971
Sales of 9,139 processed skins (9,898 in 1970-71)	$ 673,000	$ 764,000
Cost of sales—		
Dressing and dyeing	328,000	364,000
Duty	68,000	78,000
Commission on sales	24,000	27,000
Blubbering	—	19,000
Freight	7,000	7,000
Miscellaneous	3,000	(4,000)
	430,000	491,000
Profit for the year transferred from the Revolving Fund as revenue	$ 243,000	$ 273,000

The miscellaneous credit of $4,000 in 1970-71 results from adjustments of prior years' transactions.

These figures do not reflect certain transactions applicable to 1971-72 but not settled until 1972-73; namely, receipt of a federal sales tax refund of $1,600 and payment of blubbering and transportation costs of $12,000.

The financial statements of the Fisheries Working Capital Advance were not submitted to the Auditor General for certification.

385. *Government Telephone Account.* Finance Vote L20 of Appropriation Act No. 5, 1963, *1963, c.42,* authorized the establishment of the Government Telephone Account for the purpose of financing the government telephone service. The amount outstanding is not to exceed $1 million.

In paragraph 340 of our 1971 Report we pointed out that the financial statements prepared by the Department of Communications did not meet the Treasury Board requirements because they reflected only cash transactions. For the year ended March 31, 1972, the financial statements were prepared on an accrual basis but comparative figures on an accrual basis for the year ended March 31, 1971, are not available.

The Crown had no equity in the Account at March 31, 1972.

A summary of the result of operations for the year ended March 31, 1972, follows:

Income—		
Telecommunication services		$ 10,122,000
Expense—		
Operating:		
Intercity network		7,567,000
Operators' salaries		836,000
Local shared services		439,000
Directory services		251,000
Leased space		25,000
		9,118,000
Administration:		
Salaries and employee benefits		842,000
Rental of buildings and equipment		84,000
Professional services		77,000
Travel and removal		52,000
Telephone and freight		32,000
Office material and supplies		9,000
Training and education		9,000
Depreciation		8,000
Other		4,000
		1,117,000
		10,235,000
Loss for the year		$ 113,000

386. *Information Canada—Expositions Revolving Fund.* The Audio Visual—Expositions Division of Information Canada is financed by a revolving fund established by Supply and Services Vote L149b, Appropriation Act No. 1, 1970, *1969-70, c.24,* for the purpose of providing project management, design, production and warehousing services for exhibits and displays sponsored by federal government departments and agencies. The costs incurred in providing these services are recovered from customer departments and agencies. The amount that may be outstanding at any time was increased from $1,000,000 to $1,750,000 by Supply and Services Vote L30, Appropriation Act No. 3, 1971, *1970-71-72, c.46.*

The Crown's equity in the Fund at March 31, 1972, was $294,000 represented by production materials, $37,000, and capital assets, $285,000, less accounts payable to commercial suppliers and accrued liabilities of $28,000.

This is the first year for which the financial statements required by Treasury Board Circular 1970-7 of January 8, 1970, have been prepared for the Revolving Fund's operations.

The following is a summary of the results of operations for the year ended March 31, 1972:

Sales—Exhibits and displays		$ 6,700,500
Cost of sales—		
Direct:		
Subcontracts	$ 1,978,600	
Materials	742,500	
Labour	550,200	
Exhibit space rental costs	528,000	
Customs, freight, and duty	269,000	
Travel and communications	170,900	
		4,239,200
Indirect:		
Project management	626,500	
Shop production	597,700	
Design and drafting	537,700	
Receiving and shipping	190,400	
Storage	58,700	
		2,011,000
		6,250,200
Administration expense		448,800
		6,699,000
Net profit		$ 1,500

387. *Information Canada—publishing activities.* Supply and Services Vote 25, Appropriation Act No. 3, 1970, *1969-70, c.46*, authorizes the purchase, publication, distribution and sale by Information Canada of publications to the public. This function consists of: publication of books and pamphlets on Canada and on government activities; provision of publishing advice to departments; promotion of a higher standard of excellence in form and language in all government publications; and promotion and sale of government publications through mail-order and sales outlets across Canada.

A summary of expenditure and revenue for the past two years follows:

	Year ended March 31	
	1972	1971
Expenditure—		
Printing and binding of publications for sale and for free distribution	$ 2,067,000	$ 1,849,000
Administration, publishing and distribution	1,822,000	1,295,000
	3,889,000	3,144,000
Revenue—		
Sales of publications	3,305,000	2,870,000
Royalties	86,000	33,000
Art work for other departments	—	3,000
	3,391,000	2,906,000
Excess of expenditure over revenue	$ 498,000	$ 238,000
Excess of expenditure over revenue provided for by—		
Supply and Services Vote 25	$ 3,889,000	$ 3,144,000
Less: Sales proceeds credited to revenue	3,391,000	2,906,000
	$ 498,000	$ 238,000

The summary does not include 1971-72 federal sales tax of $100,000 assessed in August 1972 by the Department of National Revenue. Neither does it include the cost of common services provided without charge by other government departments because no estimate of the cost of these services was obtained by Information Canada for 1971-72. On the basis of departmental information we estimate the value of common services at $2,300,000.

The sales operation is handled through a publications warehousing distribution centre in Hull, Que., and six bookshops located in the larger Canadian cities.

Sales of publications during the year totalled $3,305,000 but, because the cost of printing and binding is not divided between publications sold and publications distributed free, it is not possible to state what part of the cost of $2,067,000 is applicable to those sold. Furthermore, because the inventory records are incomplete, it would not in any case be possible to relate cost of sales to sales. As in previous years (paragraph 341 of our 1971 Report) we must report the lack of adequate control over stocks of publications held for sale.

Since 1962, 16 studies have been made of the printing and publishing activities of the Government; the most recent having been completed in 1972. An inventory control system to give total physical and financial control of inventories in the bulk publications stores, forward stores operations and bookshops has still not been fully implemented. A partial system put into operation during the year included only 15,000 out of approximately 60,000 Canadian publications and is therefore of limited value. It was installed by the Publications Division to provide essential information on free distribution of Canadian publications and on stock movements from the publications warehousing distribution centre to the sales outlets. No inventory record is currently maintained from which the free distribution and actual sales statistics of individual publications can be obtained. As a result there is no information, centrally located, from which a decision can be made on re-order quantities, excess stock levels, and disposal of slow-moving and obsolete stock items.

The inventory was reduced during the year by routine disposals of obsolete and soiled publications having a retail value of $94,000. A Working Group on Publishing made up of government, industry and university consultants recommended in August 1971 "....that an inventory be taken at once and a condemnation board be convened as soon as possible to dispose of obsolete publications or those surplus to requirements." This recommendation has not yet been acted upon.

Annual financial statements that would present the financial position and the true cost of the publishing activities are not prepared by Information Canada.

388. *National Film Board.* This Board, consisting of the Government Film Commissioner as Chairman and eight other members appointed by the Governor in Council, operates under the National Film Act, *R.S., c. N-7.* Its purposes are to

initiate and promote the production and distribution of films in the national interest. With the exception of expenditure on equipment acquired for its own use, which has been charged to Secretary of State Vote 80, all expenditures of the Board are charged to the National Film Board Operating Account. The Account is credited with all moneys received from operations of the Board, including the proceeds from the sale and rental of films and other visual materials; amounts provided by Secretary of State Vote 80, for program expenditure; and amounts transferred from appropriations of other government departments in respect of work undertaken for them.

The equity of the Crown in the Board at March 31, 1972, was $3,977,000 comprising capital equipment with a net book value of $3,061,000 and working capital of $916,000.

Secretary of State Vote L90, Appropriation Act No. 3, 1971, *1970-71-72, c.46,* established a revolving fund for the operations of the Canadian Government Photo Centre, effective April 1, 1971, which is dealt with in paragraph 376 of this Report. Prior to that date the Centre operated under the National Film Board Operating Account and the results of its operations were included in those of the Board. The figures for 1971 have been adjusted to exclude amounts applicable to the Centre in the following summary of the Board's expense and income for the past two years:

	Year ended March 31	
	1972	1971
Expense—		
Production of films and other visual materials for:		
National Film Board	$ 7,304,000	$ 5,783,000
Government departments and others	5,326,000	3,976,000
	12,630,000	*9,759,000*
Distribution of films	4,034,000	3,843,000
Estimated value of major services provided without charge by government departments:		
Accommodation	2,125,000	1,940,000
Employee benefits	1,410,000	1,184,000
Accounting and cheque issue services	146,000	143,000
Carrying of franked mail	12,000	12,000
	3,693,000	*3,279,000*
Executive and administrative services	2,119,000	1,995,000
Depreciation	457,000	392,000
Research and development	144,000	120,000
Provision for retroactive salary and wage increases	—	312,000
Exchequer Court award *re* fire loss	—	90,000
	23,077,000	19,790,000
Income—		
Sale of films and other visual materials	5,986,000	5,109,000
Rentals and royalties	1,543,000	1,012,000
Miscellaneous	53,000	39,000
	7,582,000	6,160,000

	Year ended March 31	
	1972	1971
Net expense	$ 15,495,000	$ 13,630,000
Net expense provided for by—		
Secretary of State Vote 80	$ 11,355,000	$ 9,568,000
Treasury Board— Reserve for salary revisions	—	312,000
Exchequer Court award *re* fire loss	—	90,000
	11,355,000	9,970,000
Less: Amount refundable	10,000	11,000
	11,345,000	9,959,000
Government departments which provided major services without charge	3,693,000	3,279,000
Depreciation	457,000	392,000
	$ 15,495,000	$ 13,630,000

The increase of $2,871,000 for production of films and other visual materials relates mainly to fees paid to performers, researchers, writers, etc., salaries paid to employees engaged on production, and amounts paid for work done by outsiders. The estimated value of major services provided without charge has not been allocated to the several activities of the Board because the Board does not wish to do this until it is required to pay for these services.

The increase of $877,000 in income from the sale of films and other visual materials relates mainly to additional sponsored production. The increase of $531,000 in rentals and royalties relates to royalties earned as a result of greater usage of films produced by the Board.

389. *Passport Office*. Vote L22b of Appropriation Act No. 1, 1969, *1968-69, c.23*, authorizes a revolving fund for the purpose of operating the central and regional passport offices. The amount outstanding is not to exceed $100,000.

The Crown's equity in the Passport Office Revolving Fund at March 31, 1972, was $292,000 represented by $78,000 in advances for the acquisition of capital assets and by $214,000 in capital assets financed from parliamentary appropriations or from operating surplus.

The following is a summary of the results of operations for the past two years:

	Year ended March 31 1972	1971
Income—		
Fees earned	$ 4,675,000	$ 3,971,000
Expense—		
Salaries and employee benefits	2,116,000	1,863,000
Passport materials and application forms	309,000	266,000
Accommodation	253,000	219,000
Passport operations at posts abroad	229,000	176,000
Postal services and postage	201,000	149,000
Professional and special services	111,000	79,000
Telephone and telegraph	86,000	104,000
Office stationery and supplies	76,000	43,000
Travel and removal	45,000	23,000
Provision for replacement of capital assets	36,000	36,000
Repair and replacement of office furniture and equipment	32,000	17,000
Information	31,000	30,000
Other	21,000	17,000
	3,546,000	3,022,000
Less: Increase in inventory of passports in process	4,000	3,000
	3,542,000	3,019,000
Surplus for the year transferred from the Revolving Fund as revenue	$ 1,133,000	$ 952,000

The increase of $253,000 in salaries and employee benefits was due chiefly to salary revisions and an increase in staff. The increase of $53,000 in the cost of passport operations at posts abroad resulted from an increase in the volume of passports issued abroad. The increased expenditure of $52,000 for postal services and postage was due to postage rate increases and to the increased volume of passports issued. The increase of $43,000 in passport materials and application forms expense resulted from an increase in the cost of passport blanks and the increased volume of passports issued.

Vote L22b also provides that the Fund is to be credited with "such portion as may be determined by the Treasury Board of the revenue derived from passport services". Although the Treasury Board has not formally determined the portion of the revenue to be credited to the Fund, the entire revenue from passport services during the year was credited thereto.

390. *Post Office.* The Post Office operates under authority of the Post Office Act, *R.S., c. P-14,* which provides that the Postmaster General shall administer, superintend and manage the Canada Post Office.

The following is a summary of the results of operations for the past two years as recorded by the Post Office:

	Year ended March 31	
	1972	1971
Gross postal revenue	$ 486,581,000	$ 418,179,000
Less:		
Expenses paid from revenue	55,806,000	55,106,000
Revenue from financial and miscellaneous services credited to expenditure	26,984,000	25,502,000
	82,790,000	*80,608,000*
Net postal revenue	403,791,000	337,571,000
Other revenue—		
Miscellaneous	129,000	97,000
Estimated:		
Value of mail and other services provided without charge to other government departments	14,174,000	11,643,000
Interest on Money Order Account	3,075,000	2,729,000
Interest on funds in Savings Bank Account	252,000	263,000
	17,630,000	*14,732,000*
	421,421,000	352,303,000
Expenditure from parliamentary appropriations—		
Mail processing	161,177,000	147,013,000
Mail delivery	150,591,000	130,782,000
Mail transportation	60,661,000	59,472,000
Administration	34,522,000	26,927,000
Counter services	33,367,000	29,904,000
	440,318,000	394,098,000
Less: Revenue from financial and miscellaneous services credited to expenditure	26,984,000	25,502,000
	413,334,000	368,596,000
Estimated value of major services provided without charge by other government departments—		
Accommodation	45,981,000	40,966,000
Contributions to:		
Public Service Superannuation Account	38,494,000	33,996,000
Canada Pension Plan and Quebec Pension Plan	5,540,000	4,868,000
Employee group surgical-medical insurance	2,335,000	2,078,000
Accounting and cheque issue services	783,000	765,000
Employee compensation	459,000	417,000
	93,592,000	*83,090,000*
Provision for retroactive salary increases	—	1,209,000
	506,926,000	452,895,000
Net operating deficit	$ 85,505,000	$ 100,592,000

The $68 million increase in gross postal revenue is attributed to rate increases effective July 1, 1971, and January 1, 1972, and to increased mail volume.

The $46 million increase in expenditure from parliamentary appropriations was mainly due to increases of $40 million in salaries and allowances, $3 million in acquisition of equipment and furnishings and $1 million in promotion of postal programs.

In summarizing its operations the Post Office includes the following items as revenue although the Department of Finance, which benefits from the large balances in the Money Order Account and the Savings Bank Account, does not record corresponding expenditures:

Interest on Money Order Account at 7%	$ 3,075,000
Interest on funds in Savings Bank Account at 7%	252,000
Additional revenue recorded	$ 3,327,000

As stated in previous Reports (paragraph 344 in 1971) it is improper for a department to take unilateral action in such circumstances, and if the Post Office is to receive credit for the value of the balances held in these two Accounts, the Department of Finance must give recognition to these additional costs.

Paragraphs 176 to 180 of this Report deal with several matters noted in the course of our examination of the Post Office.

The financial statements of the Post Office were not submitted to the Auditor General for certification.

391. *Post Office Revolving Fund.* Post Office Vote 541, Appropriation Act No. 4, 1954, *1953-54, c.67*, authorized the operation of a revolving fund for the purpose of acquiring, managing and storing materials, fittings and supplies to be used in the manufacture of uniforms, satchels and mail bags. The amount outstanding is not to exceed $895,000.

The Crown's equity in the Fund at March 31, 1972, was $650,000 represented by an inventory of materials and fittings.

The following is a summary of the transactions in the Fund for the past two years:

	Year ended March 31	
	1972	1971
Balance at beginning of year	$ 522,000	$ 765,000
Costs incurred during year—		
Purchases	1,021,000	744,000
Storage and handling	13,000	—
Freight	5,000	—
Inspection	5,000	3,000
	1,044,000	*747,000*
	1,566,000	1,512,000
Costs charged to Post Office Vote 1 with respect to materials and fittings issued free of charge to manufacturers of—		
Mail bags	547,000	636,000
Uniforms	350,000	339,000
Satchels	14,000	23,000
	911,000	*998,000*
	655,000	514,000
Surplus transferred from the Revolving Fund as revenue	—	8,000
Balance at end of year	$ 655,000	$ 522,000

	Year ended March 31	
	1972	1971
Balance at end of year represented by—		
Inventory	$ 650,000	$ 518,000
Shortage	5,000	4,000
	$ 655,000	$ 522,000

The shortage of $5,000 is an accumulation since 1965-66. We understand that an appropriation to cover it is to be sought in 1974-75.

392. *Race Track Supervision Revolving Fund.* Agriculture Vote L1b, Appropriation Act No. 1, 1970, *1969-70, c.24,* authorized the operation of a revolving fund in connection with race track supervision in Canada, to which shall be charged all administration expenses of such supervision and to which shall be credited all moneys received through the pari-mutuel levy under section 188 of the Criminal Code, *R.S., c. C-34.* The amount outstanding is not to exceed $200,000. There was no outstanding balance at March 31, 1972.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1972	1971
Income—		
Levy of six-tenths of one per cent of pari-mutuel bets at race tracks (one-half of one per cent prior to July 1, 1971)	$ 3,280,000	$ 2,841,000
Other	5,000	41,000
	3,285,000	2,882,000
Expense—		
Race surveillance	1,990,000	1,878,000
Pari-mutuel supervision and administration	1,202,000	988,000
	3,192,000	2,866,000
Profit for the year transferred from the Revolving Fund as revenue	$ 93,000	$ 16,000

The increase in pari-mutuel supervision and administration expense results mainly from the higher cost of staff required to replace Royal Canadian Mounted Police personnel for race track supervision. The R.C.M.P. had asked to be relieved of race track supervision duties.

393. *Statistics Canada Revolving Fund.* Industry, Trade and Commerce Vote L82b of Appropriation Act No. 1, 1969, *1968-69, c.23,* authorized the operation of a revolving fund for the purpose of financing the cost of special statistical services

performed by Statistics Canada at the request of government departments and agencies, and others. The amount outstanding is not to exceed $250,000. The Vote wording provides that the Fund is to be credited with "such portion as may be determined by the Treasury Board of the amounts received in payment for such services". Although the Treasury Board has not formally determined the portion of the revenue to be credited to the Fund, the entire revenue for the year was credited thereto.

The Crown had no equity in the Fund at March 31, 1972.

The Fund's operations for the first two years are summarized as follows:

	Year ended March 31	
	1972	1971
Income—		
Recoveries in respect of special statistical services performed for government departments and agencies, and others	$ 2,272,000	$ 1,306,000
Expense—		
Salaries and wages	1,482,000	952,000
Enumerators	348,000	50,000
Professional services	198,000	102,000
Travel	120,000	116,000
Office supplies	39,000	23,000
Printing	37,000	21,000
Telephone and telegraph	34,000	26,000
Other	14,000	15,000
	2,272,000	1,305,000
Surplus transferred from the Revolving Fund as revenue	$ —	$ 1,000

Special Audits

394. In addition to the examinations of the accounts of the departments and agency and proprietary Crown corporations referred to in this Report, the following special audits were made during the year, most of them in accordance with specific directions contained in various statutes:

The Army Benevolent Fund Board
The Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children
The Canada Council
The Custodian
Economic Council of Canada
Exchange Fund Account
Government of the Northwest Territories
Government of the Yukon Territory
International Development Research Centre
Medical Research Council
National Arts Centre Corporation
National Museums of Canada
Roosevelt Campobello International Park Commission
Royal Canadian Mounted Police (Dependants) Pension Fund
Science Council of Canada
Standards Council of Canada
Unemployment Insurance Commission

395. *The Army Benevolent Fund Board.* This Board was constituted by the Army Benevolent Fund Act, *R.S., c. A-16,* and consists of five members appointed by the Governor in Council. The Act provides for a special account in the Consolidated Revenue Fund called the Army Benevolent Fund to which certain moneys were credited and from which there shall be paid

> to or for the benefit of [World War II] veterans or their dependants or the widows or children or former dependants of deceased veterans such amounts as the Board may from time to time determine

together with the expenses incurred in carrying out the provisions of the Act.

The Act directs that the Board be governed by the following principles:

(a) plans shall be formulated on the assumption that there will be prospective beneficiaries for fifty years from the establishment of the Fund [in 1947];

(b) no grant is to be made by way of relief from the Fund where adequate relief is, at the time of the application, available from federal, provincial or municipal governmental sources;

(c) where grants are made to assist in the education of dependants of veterans or of children of deceased veterans, bursaries shall be granted contingent on continued need and satisfactory progress and not as competitive scholarships based on academic standing; and

(d) amounts paid out of the Fund are not recoverable unless obtained by fraud or misrepresentation.

The accounts of the Board were examined for the year ended March 31, 1972, pursuant to section 11 of the Act and our report was submitted to the Chairman and members of the Board with a copy being provided to the Minister of Veterans Affairs.

Receipts amounted to $383,000 of which $290,000 was derived from interest on deposits with the Receiver General, $12,000 from interest on Canada bonds and $81,000 was contributed for grant purposes by other agencies. In paragraph 90 of this Report we comment on the calculation of interest on deposits with the Receiver General. Disbursements totalled $610,000 consisting of $499,000 in grants to or on behalf of World War II veterans and $111,000 for administrative and case-work expense. The latter was a net amount after deducting fees of $48,000 and $36,000 for management of the financial programs of the Canadian Army Welfare Fund and the Canadian Forces Personnel Assistance Fund and a grant of $18,000 from the Department of Veterans Affairs to assist in defraying administrative expenses.

After absorbing the excess of disbursements over receipts amounting to $227,000, the balance of $3,954,000 in the Fund at March 31, 1972, together with funds held in trust, $365,000, was represented by cash on deposit with the Receiver General, $4,058,000, Canada bonds, $256,000, and accountable advances and prepaid expense, $5,000.

In addition to administering the Army Benevolent Fund, by arrangement the Board acts as manager of the Canadian Army Welfare Fund and the Canadian Forces Personnel Assistance Fund financial assistance programs. The Canadian Army Welfare Fund extends assistance to members or ex-members of the Regular forces who served in the Canadian Army and their dependants, and the Canadian Forces Personnel Assistance Fund which became operative on April 1, 1971, extends assistance to personnel serving in the Canadian Forces Regular component and their dependants. As the Act makes no provision for the Board to act as manager for other Service funds which provide assistance to persons who are not veterans of World War II, we have recommended that it seek an amendment to the Act to provide statutory sanction for these arrangements.

396. *The Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* This Board and the Fund were established in 1959 by the Queen Elizabeth II Canadian Research Fund Act, *R.S., c. Q-1,* to assist individuals or organizations to undertake or carry on research into the diseases of

children and the causes, prevention and treatment of such diseases. The Board, with headquarters in Ottawa, consists of a chairman and six members. Secretarial and other administrative and technical services and facilities were provided without charge by the Medical Research Council.

As required by section 14 of the Act, we have audited the accounts and financial transactions of the Board for the year ended March 31, 1972, and have reported thereon to the Board and to the Prime Minister.

The Act provided $1 million for the Fund and permits the Board to accept gifts for its purposes. The following is a summary of the Board's transactions for the past two years:

	Year ended March 31	
	1972	1971
Principal of Fund at beginning of year	$ 973,000	$ 913,000
Earnings on investments	64,000	63,000
	1,037,000	976,000
Awards approved during year	155,000	18,000
Less: Cancellation of awards approved in prior years	23,000	15,000
	132,000	3,000
Principal of Fund at end of year	$ 905,000	$ 973,000

Two categories of awards have been established by the Board of Trustees, namely "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children. The value of a fellowship ranges from $6,900 to $12,850 per annum depending upon qualifications, plus a travel grant and children's allowances where applicable. Also, a research allowance of $500 is awarded to the supervisor of each fellow. Three new fellowships totalling $31,000 were awarded during the year. In addition, travel grants, children's allowances and research allowances totalling $2,000, relating to fellowships, were approved.

Awards in the second category cover the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the Board of Trustees with regard to these appointments provide for payments of $12,000 or more per annum, depending upon qualifications, for the first three years and $6,000 per annum for the next three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the Board. Two scientist awards totalling $108,000 were granted during the year and retroactive adjustments for awards granted in prior years amounted to $14,000.

The Board continued to support four scientist appointees of prior years, and the outstanding liability of $70,000 in this connection, plus the outstanding liability of $4,400 for two fellowships awarded in the preceding year, were included in the total provision of $227,000 for awards approved, appearing on the balance sheet of the Board at March 31, 1972.

397. *The Canada Council.* The Council, consisting of a chairman, vice-chairman and not more than nineteen other members appointed by the Governor in Council, was established by the Canada Council Act, *R.S., c. C-2,* to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences.

As required by section 22 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1972, and have reported thereon to the Council and to the Secretary of State.

The financial statements of the Council are not reproduced in the Public Accounts as are the statements of Crown corporations and other operating activities. If financial information additional to the following is required, reference should be made to the annual report of the Council.

An Endowment Fund of $50 million was established under the Act. Unconditional grants from Canada together with income earned on the investments of the Fund are used to meet administration expense and expenditure for the purposes of the Act. Permissible expenditure includes, in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performances and publications; exchanges with other countries and organizations or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

The transactions of the Endowment Account for the past two years are summarized as follows:

	Year ended March 31	
	1972	1971
Surplus at beginning of year	$ 1,288,000	$ 1,467,000
Income—		
Grant from Canada	26,310,000	24,200,000
Interest and dividends earned	5,165,000	5,175,000
Cancelled grants and refunds	1,550,000	1,164,000
	33,025,000	*30,539,000*
	34,313,000	32,006,000
Expenditure—		
Grants, scholarships, awards, etc.	30,611,000	28,587,000
Administration expense, less recoveries	2,792,000	2,131,000
	33,403,000	30,718,000
Surplus at end of year	$ 910,000	$ 1,288,000

The Council may acquire money, securities or other property by gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms, if any, upon which they are made available to the Council. With the exception of parliamentary grants, moneys or property so received by the Council are presented in a consolidated balance sheet designated "Special Funds". The principal of such funds, together with the net profit on disposal of securities held as a reserve against possible future investment losses, at March 31, 1972, and the comparable amounts at March 31, 1971, were:

	March 31, 1972	March 31, 1971
The Izaak Walton Killam Memorial Fund for Advanced Studies	$ 10,805,000	$ 10,648,000
Special Scholarship Fund	1,878,000	1,774,000
Molson Prize Fund	800,000	814,000
Lynch-Staunton Fund	699,000	704,000
John B.C. Watkins Estate	40,000	35,000
	$ 14,222,000	$ 13,975,000

The surplus earnings of these Funds which were available at March 31, 1972, for the purposes designated and comparable amounts at March 31, 1971, were:

	March 31, 1972	March 31, 1971
The Izaak Walton Killam Memorial Fund for Advanced Studies	$ 617,000	$ 585,000
Special Scholarship Fund	751,000	607,000
Molson Prize Fund	1,000	13,000
Lynch-Staunton Fund	128,000	96,000
	$ 1,497,000	$ 1,301,000

During the year income earned by these Funds, grants authorized, charges paid and the amounts added to surplus were as follows:

	Income	Grants authorized	Administrative and other charges	Added to surplus
The Izaak Walton Killam Memorial Fund for Advanced Studies	$ 666,000	$ 580,000	$ 54,000	$ 32,000
Special Scholarship Fund	144,000	—	—	144,000
Molson Prize Fund	35,000	45,000	2,000	(12,000)
Lynch-Staunton Fund	32,000	—	—	32,000
	$ 877,000	$ 625,000	$ 56,000	$ 196,000

Our statutory report to the Council and the Secretary of State on the audit of the Council's accounts for the year ended March 31, 1972, disclosed that the Council was contingently liable at that date for an undetermined amount in respect of income tax which may become assessable on scholarships, fellowships and bursaries after January 1, 1972. It is the opinion of the Council that the contingency is

confined to doctoral fellowships totalling approximately $3.5 million which were payable after December 31, 1971.

Paragraphs 70 and 71 of this Report deal with certain matters noted in the course of our examination of the financial transactions of the Council.

398. *The Custodian.* In accordance with Regulation 6 of the Revised Regulations Respecting Trading with the Enemy (1943) as set out in the schedule to The Trading with the Enemy (Transitional Powers) Act, *1947, c.24*, the Custodian is appointed "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him". The Minister of Supply and Services is the Custodian of Enemy Property. The Deputy Minister (Services) is the Deputy Custodian. The Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. Our report on the audit of the Custodian's accounts for the year ended December 31, 1971, was made to the Minister of Consumer and Corporate Affairs who was then the Custodian.

The assets under the administrative control of the Custodian increased by $96,000 to $3,164,000 at December 31, 1971. This increase resulted from an increase of $103,000 in the equity in holding companies, and revenue of $22,000 from securities, offset by the release of assets amounting to $29,000.

Under the Regulations, the Custodian may charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2% of the value of the property including the income therefrom. He is also permitted to employ such part of the property vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the Regulations.

In addition to the income from fees, any income received from vested assets which consist of, or are converted into, cash or Canada bonds is credited to the Custodian's Office Administration Account, from which expenses of the Office are paid. We have drawn attention to this procedure in past years because it is not consistent with the treatment of income arising from other assets vested in the Custodian. In February 1967 we were informed by the Deputy Custodian that, on the basis of his interpretation of an opinion given by the Department of Justice in 1947 and discussions with officers of that Department, he was satisfied that the Custodian was acting within his legal rights in retaining this income from the bank deposits and Canada bonds included among the vested assets. It is our opinion, however, that the Custodian is empowered to retain the income from any asset vested in him only to the extent that it is required to meet expenses incurred with respect to that particular estate plus a percentage of general expenses.

There was an excess of income over expense of $78,000 in the Custodian's Office Administration Account in 1971 which was added to the surplus account, increasing

the balance to $1,095,000 at the year-end. A summary of income and expense for the past two years follows:

	Year ended December 31	
	1971	1970
Income—		
Income from investments	$ 147,000	$ 163,000
Interest on bank deposits	4,000	5,000
Fees on assets released from administration	1,000	—
	152,000	168,000
Expense—		
Salaries and employee benefits	66,000	62,000
Office rent	5,000	6,000
Other	3,000	4,000
	74,000	72,000
Excess of income over expense	$ 78,000	$ 96,000

399. *Economic Council of Canada.* The Council, consisting of a chairman, two directors and twenty-five other members appointed by the Governor in Council, was established as a corporation by the Economic Council of Canada Act, *R.S., c. E-1,* to advise how Canada can achieve the highest possible levels of employment and efficient production.

As required by section 20 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1972, and have reported thereon to the Council and to the Prime Minister.

The following is a summary of the expense of the Council for the past two years:

	Year ended March 31	
	1972	1971
Salaries and employee benefits	$ 1,754,000	$ 1,520,000
Professional and special services	417,000	238,000
Accommodation	147,000	146,000
Office equipment, furniture, stationery and supplies	67,000	63,000
Publication of reports and studies	65,000	31,000
Travel and removal	62,000	54,000
Telephone, telegrams and postage	32,000	26,000
Miscellaneous	9,000	6,000
Total expense	$ 2,553,000	$ 2,084,000
Total expense provided for by—		
Privy Council Vote 25	$ 2,126,000	$ 1,746,000
Government departments which provided major services without charge	427,000	338,000
	$ 2,553,000	$ 2,084,000

The increase of $234,000 in salaries and employee benefits was due to salary adjustments amounting to $147,000 and to an increase of $87,000 in employee benefits. The increase of $179,000 in the cost of professional and special services was due mainly to the continued development of a large-scale model of the Canadian economy.

400. *Exchange Fund Account.* This Account was established "to aid in the control and protection of the external value of the Canadian monetary unit" and operates under Part II of the Currency and Exchange Act, *R.S., c. C-39.*

As required by section 18(2) of the Act, we have audited the Exchange Fund Account and the transactions connected therewith for the year ended December 31, 1971, and have reported thereon to the Minister of Finance. This section requires a certificate to be given annually to Parliament and I now certify that, in my opinion, the transactions in connection with the Account have been in accordance with the provisions of the Act and that the records of the Account show truly and clearly the state of the Account.

The advances to the Exchange Fund Account from the Consolidated Revenue Fund at December 31, 1971 and 1970 were represented by the following:

	December 31, 1971	December 31, 1970
Canadian dollars	$ 525,000	$ 819,000
United States dollars, Treasury bills and bonds, with accrued interest	907,431,000	507,907,000
United States Special Treasury notes, with accrued interest	2,884,286,000	2,326,919,000
International Bank for Reconstruction and Development bonds, with accrued interest	51,139,000	51,722,000
International Monetary Fund note, with accrued interest	—	121,652,000
International Monetary Fund special drawing rights, with accrued interest	373,919,000	184,489,000
Gold	793,525,000	799,600,000
Suspense	432,000	(2,324,000)
	5,011,257,000	3,990,784,000
Deduct:		
Due to the Consolidated Revenue Fund in accordance with section 16 of the Currency and Exchange Act:		
Earnings for the year on investments	191,964,000	174,797,000
Net profit for the year from trading operations in foreign exchange, gold and securities	2,143,000	688,000
	194,107,000	175,485,000
	4,817,150,000	3,815,299,000
Deficit	273,399,000	231,583,000
Advances from the Consolidated Revenue Fund	$ 5,090,549,000	$ 4,046,882,000

The earnings on investments and the net profit from trading operations in foreign exchange, gold and securities, amounting to $194,107,000, have since been paid into the Consolidated Revenue Fund as revenue of Canada.

At December 31, 1971, the closing market value of the United States dollar was $1.0021875 compared with $1.01125 at December 31, 1970. This resulted in a loss for the year of $41,816,000 increasing the deficit in the Account to $273,399,000.

By March 31, 1972, the deficit had dropped to $217,460,000 because of the increase in the value of holdings of gold and special drawing rights but, as is pointed out in paragraph 89 of this Report, no action has yet been taken to write this deficit off as a cost of exchange management as recommended by the Public Accounts Committee.

401. *Government of the Northwest Territories.* The Northwest Territories Act, *R.S., c. N-22,* provides for the appointment by the Governor in Council of a chief executive officer for the Territories, to be known as the Commissioner, and for a Council of the Territories consisting of fourteen members, of whom ten are elected and four are appointed by the Governor in Council. The Commissioner in Council is empowered by the Act to make ordinances for the governing of the Territories in fields paralleling those normally within provincial jurisdiction.

As required by section 23 of the Act, we have examined the accounts and financial transactions of the Territories for the year ended March 31, 1972, and have reported thereon to the Council.

The following is a summary of expenditure and revenue of the Territories for the past two years:

	Year ended March 31	
	1972	1971
Expenditure—		
Operation and maintenance:		
Education	$ 16,114,000	$ 13,364,000
Public Works	15,466,000	15,564,000
Administration	8,782,000	7,766,000
Health	5,939,000	3,891,000
Social Development	5,783,000	4,849,000
Local Government	5,275,000	4,761,000
Industry and Development	4,221,000	3,598,000
Territorial Treasurer	3,891,000	1,270,000
Territorial Secretary	1,998,000	1,557,000
Centennial	—	365,000
Interest on loans from Canada	2,106,000	1,313,000
	69,575,000	*58,298,000*
Capital	21,382,000	13,939,000
	90,957,000	72,237,000

	Year ended March 31 1972	1971
Revenue—		
Federal grants:		
Operating	$ 48,865,000	$ 26,598,000
Loan amortization	3,040,000	2,068,000
	51,905,000	*28,666,000*
Operation and maintenance:		
Taxes	3,546,000	2,880,000
Liquor profits	2,817,000	2,401,000
Housing rental recoveries	2,261,000	1,850,000
Heating fuel, power, water and sewer	852,000	748,000
Licences and fees	752,000	510,000
Industry and Development projects	644,000	523,000
Bank interest and foreign exchange	529,000	391,000
Refund of previous years' expenditures	262,000	135,000
Rental of buildings and equipment	257,000	60,000
Board, lodging, and sale of food	214,000	108,000
Other	467,000	377,000
	12,601,000	*9,983,000*
Expenditure recoveries under Federal-Territorial cost-sharing agreements:		
Health	3,838,000	2,290,000
Indian and Eskimo Northern Housing, less $130,000 repaid with respect to advance received in 1969-70	2,354,000	2,332,000
Public Works	1,333,000	1,080,000
Social Development	1,155,000	537,000
Education	323,000	364,000
Other	125,000	13,795,000
	9,128,000	*20,398,000*
Capital recoveries	3,611,000	2,802,000
	77,245,000	61,849,000
Excess of expenditure over revenue	$ 13,712,000	$ 10,388,000

For the year ended March 31, 1972, administration expenditure includes removal, medical and annual leave assistance which in the previous year had been included in the expenditure of the departments concerned. Similarly the Territorial Treasurer expenditure includes all freight and express which in the previous year had been included in the expenditure of the departments concerned. The amounts for the previous year have not been adjusted because the necessary details were not available. There have been minor changes in the classification of revenue and the figures for the previous year have been adjusted for purposes of comparison.

Of an amount of $906,000 received in 1969-70 in the form of advances from Canada for the Indian and Eskimo housing program, only $776,000 was accepted by Canada as the costs of operation and the balance of $130,000 was repaid during the year. While a claim in excess of the outstanding advances of $4,816,000 received in 1970-71 and 1971-72 has been submitted, a liability could arise in the event that the claim is accepted by Canada in an amount less than the outstanding advances.

402. *Government of the Yukon Territory.* The Yukon Act, *R.S., c. Y-2,* provides for the appointment by the Governor in Council of a chief executive officer for the Territory, to be known as the Commissioner, and for the election of a Council composed of seven members. The Commissioner in Council is empowered by the Act to make ordinances for the governing of the Territory in fields normally within provincial jurisdiction.

The accounts and financial transactions of the Territory are subject to examination by the Auditor General of Canada in accordance with section 26 of the Act and accordingly we have made an examination for the year ended March 31, 1972, and have reported thereon to the Council.

A reorganization of the responsibilities of a number of departments, with effect from April 1, 1971, resulted in the following changes in the Statement of Expenditure and Revenue:

1. Expenditures of all departments relating to (a) personnel services for salaries, wages and other employee costs and (b) expenditures of a general nature, previously provided for in two separate appropriations, Personnel services and General, were transferred to the departments to which the expenditures related.

2. Expenditures previously provided for under separate appropriations were combined as follows: Yukon Hospital Insurance Service, Welfare, Health and Correctional Institute under Health, Welfare and Rehabilitation; Travel and Information, Game and Yukon Regional Library under Tourism, Conservation and Information Services; and Yukon Council and personnel administration under Administrative Services.

3. A new department, Legal Affairs, was constituted to administer the several Courts and related matters for which the federal Department of Justice had previously been largely responsible.

For comparative purposes the 1970-71 figures have been adjusted accordingly.

The following is a summary of expenditure and revenue of the Territory for the past two years:

	Year ended March 31	
	1972	1971
Expenditure—		
Operation and maintenance:		
Education	$ 5,949,000	$ 5,276,000
Highways and Public Works	4,143,000	3,303,000
Health, Welfare and Rehabilitation	4,025,000	3,608,000
Local Government	1,674,000	1,619,000
Tourism, Conservation and Information Services	772,000	561,000
Administrative Services	741,000	555,000
Territorial Treasurer and Collector of Taxes	634,000	740,000
Territorial Secretary and Registrar General	485,000	388,000
Legal Affairs	460,000	48,000
Interest on loans from Canada	1,724,000	1,340,000
	20,607,000	*17,438,000*
Capital	5,076,000	7,266,000
	25,683,000	24,704,000

	Year ended March 31	
	1972	1971
Revenue—		
Federal grants:		
Operating	$ 6,890,000	$ 4,064,000
Loan amortization	2,423,000	1,858,000
	9,313,000	*5,922,000*
Operation and maintenance:		
Taxes	3,456,000	2,800,000
Liquor profits	1,971,000	1,851,000
Licences	880,000	586,000
Interest on bank deposits	188,000	140,000
Fees—registration and services	127,000	88,000
Other	322,000	234,000
	6,944,000	*5,699,000*
Expenditure recoveries (including $5,498,000 under Federal-Territorial cost-sharing agreements; $4,359,000 in 1970-71):		
Highways and Public Works	2,725,000	2,259,000
Health, Welfare and Rehabilitation	1,821,000	1,780,000
Education	681,000	596,000
Local Government	655,000	492,000
Legal Affairs	449,000	—
Territorial Treasurer and Collector of Taxes	171,000	142,000
Other	67,000	30,000
	6,569,000	*5,299,000*
Capital recoveries	1,871,000	2,523,000
	24,697,000	19,443,000
Excess of expenditure over revenue	$ 986,000	$ 5,261,000

403. *International Development Research Centre.* The Centre, consisting of a Board of Governors composed of a chairman, president and not more than nineteen other governors appointed by the Governor in Council, was established by the International Development Research Centre Act, *R.S. (1st Supp.), c.21,* to initiate, encourage, support and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical and other knowledge to the economic and social advancement of those regions. The headquarters of the Centre is in Ottawa, district offices are located in Quebec, Que., Montreal, Que., Guelph, Ont., Edmonton, Alta., and Vancouver, B.C., and regional offices in Bogota, Colombia and Singapore.

As required by section 21 of the Act, we have audited the accounts and financial transactions of the Centre for the year ended March 31, 1972, and have reported thereon to the Centre and to the Secretary of State for External Affairs.

The financial statements of the Centre have not been reproduced in the Public Accounts as are the statements of Crown corporations and other operating activities. If financial information additional to the following is required reference should be made to the annual report of the Centre.

The following is a summary of operations of the Centre for the year ended March 31, 1972, and for the period May 13, 1970, the date of inception, to March 31, 1971:

	Year ended March 31, 1972	May 13, 1970 to March 31, 1971
Income—		
Grant from Canada	$ 2,474,000	$ 2,444,000
Interest	132,000	70,000
Fees	9,000	10,000
	2,615,000	2,524,000
Expense—		
Programs:		
Social Sciences and Human Resources	501,000	41,000
Agriculture, Food and NutritionSciences	409,000	36,000
Population and Health Sciences	404,000	11,000
Information Sciences	131,000	—
	1,445,000	88,000
Administration:		
Salaries, allowances and employee benefits	983,000	384,000
Staff travel and removal	295,000	80,000
Accommodation	119,000	48,000
Governors' honoraria, travel and meetings	116,000	43,000
Office furnishings and equipment	97,000	124,000
Office supplies	39,000	15,000
Communications	37,000	14,000
Professional and special services	27,000	25,000
Equipment rental	13,000	4,000
Sundry	32,000	14,000
	1,758,000	751,000
	3,203,000	839,000
Excess of expense over income	$ 588,000	$ (1,685,000)

The increase of $599,000 in salaries, allowances and employee benefits was due mainly to an increase in staff from 37 in 1970-71 to 92 in 1971-72. The increase of $73,000 in the cost of governors' honoraria, travel and meetings resulted mainly from holding one of the Board meetings in New Delhi, India, whereas in the preceding year all Board meetings were held in Canada. The increase of $71,000 in accommodation expenditure resulted mainly from an increase in the space occupied by the headquarters of the Centre and the opening of additional district and regional offices.

Section 20 of the Act requires the establishment in a chartered bank of an account to be known as the International Development Research Centre Account, which is to be credited with all amounts realized by the Centre under the Act. Notwithstanding this the Centre has established and is presently operating accounts in two chartered banks and in a foreign banking corporation abroad. The Centre should seek amending legislation that will permit it to establish the bank accounts necessary to conduct its business.

404. *Medical Research Council.* The Council, consisting of a president and not more than twenty-one other members appointed by the Governor in Council, operates under the Medical Research Council Act, *R.S., c. M-9.* Its function is to promote, assist and undertake basic, applied and clinical research in Canada in the health sciences, other than public health research.

As required by section 16 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1972, and have reported thereon to the Council and to the Minister of National Health and Welfare.

The following is a summary of the Council's expenditure for the year, together with comparable figures for the preceding year:

	Year ended March 31	
	1972	1971
Grants and scholarships—		
Grants in aid of research	$ 23,568,000	$ 22,479,000
Direct personnel support	8,766,000	8,113,000
Research promotion	3,308,000	3,370,000
	35,642,000	*33,962,000*
Administration—		
Salaries, wages and employee benefits	302,000	251,000
Committee meetings	87,000	82,000
Printing, stationery and office supplies	36,000	38,000
Communications	34,000	43,000
Office furniture and equipment	28,000	5,000
Professional and special services	23,000	18,000
Publications	20,000	23,000
Accounting and cheque issue services	15,000	18,000
Other	26,000	20,000
	571,000	*498,000*
Total expenditure	$ 36,213,000	$ 34,460,000
Total expenditure provided for by—		
National Health and Welfare Vote 50	$ 35,642,000	$ 33,962,000
National Health and Welfare Vote 45	473,000	403,000
Government departments which provided major services without charge	98,000	95,000
	$ 36,213,000	$ 34,460,000

The $51,000 increase in salaries, wages and employee benefits was due to salary increases and to an increase in staff from 20 to 25. The increase of $23,000 in office furniture and equipment was due mainly to a move to new premises.

Refunds of previous years' expenditure, $76,000, were recorded as non-tax revenue of the Department of National Health and Welfare. At March 31, 1972, the Council had outstanding commitments of approximately $44,500,000 in respect of future grants and scholarships awarded, payment being subject to the provision of funds by Parliament.

405. *National Arts Centre Corporation.* The National Arts Centre Act, *R.S., c. N-2,* established the National Arts Centre Corporation consisting of a Board of Trustees composed of a chairman, a vice-chairman, and nine other members appointed by the Governor in Council and the persons from time to time holding

the five public offices named in the Act. The objects of the Corporation are to operate and maintain the National Arts Centre, to develop the performing arts in the national capital region and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

The cost of the National Arts Centre including furnishings and equipment to March 31, 1972, amounted to $46.4 million which was provided from appropriations of the Secretary of State. The Centre is not included among the assets of the Corporation but has been leased from the Crown for a period of twenty years. Under the terms of the lease, the Corporation is responsible for maintenance and operation of the building but is not required to pay rent or provide for interest and depreciation charges. Consequently, the accounts and financial statements of the Corporation do not reflect the true costs of operating the National Arts Centre. (See paragraph 117 of this Report.)

As required by section 16 of the Act, we have audited the accounts and financial transactions of the Corporation for the year ended March 31, 1972, and have reported thereon to the Chairman of the Board with a copy of the report being provided to the Secretary of State.

At March 31, 1972, the proprietary equity was $737,000 in the form of working capital and is the amount by which the annual parliamentary appropriations have exceeded the net cost of operations since the opening of the Centre.

The appropriation for the Centre provided by Secretary of State Vote 75 was $2,956,000 or $171,000 more than the net cost of operations of the Centre for the year which was $2,785,000 compared with $2,206,000 in the previous year.

The following is a summary of the Corporation's operations for the past two years:

	Year ended March 31	
	1972	1971
Expense—		
Direct costs of concerts and theatrical performances:		
Visiting attractions	$ 915,000	$ 1,121,000
National Arts Centre Orchestra	847,000	797,000
Regular theatre programs	843,000	767,000
Festival Canada	359,000	—
	2,964,000	*2,685,000*
General and administration:		
Salaries and employee benefits	1,277,000	990,000
Utilities	345,000	307,000
Building maintenance	338,000	290,000
Security guards, ushers and guides	177,000	165,000
Advertising and promotion	162,000	46,000
Office supplies	81,000	58,000
Employees' travel and duty entertainment	49,000	39,000
Telephone and telegraph	48,000	46,000
Other	117,000	77,000
	2,594,000	*2,018,000*
	5,558,000	4,703,000

	Year ended March 31 1972	1971
Income—		
Concerts and theatrical performances:		
Visiting attractions	$ 742,000	$ 917,000
National Arts Centre Orchestra	326,000	327,000
Regular theatre programs	393,000	294,000
Festival Canada	223,000	—
Canada Council grants	208,000	195,000
	1,892,000	*1,733,000*
Other:		
Parking	437,000	373,000
Rentals	128,000	131,000
Supply of materials and services to lessees	125,000	109,000
Interest	86,000	116,000
Miscellaneous	83,000	38,000
	859,000	*767,000*
	2,751,000	2,500,000
Excess of expense over income	2,807,000	2,203,000
Deduct: Profit (loss) on restaurant operations	22,000	(3,000)
Net cost of operations, not includinginterest and depreciation	$ 2,785,000	$ 2,206,000

Of the increase in salaries and employee benefits, approximately $208,000 resulted from an increase in staff from 175 to 202.

The restaurant profit of $22,000 was determined without providing for the cost of space, equipment and utilities used. Food and beverage sales for the year totalled $943,000 compared to $820,000 in 1970-71.

406. *National Museums of Canada.* This Corporation was established by the National Museums Act, *R.S., c. N-12,* and consists of a Board of Trustees composed of a Chairman, a Vice-Chairman, the Director of the Canada Council, the President of the National Research Council of Canada and ten other members appointed by the Governor in Council. The purposes of the Corporation, comprising the National Gallery of Canada, the National Museum of Natural Sciences, the National Museum of Man and the National Museum of Science and Technology, are to demonstrate the products of nature and the works of man so as to promote interest therein throughout Canada and to disseminate knowledge thereof. In accordance with section 10 of the Act, three special accounts, the National Museums Purchase Account, the National Museums Special Account and the National Museums Trust Account, are operated within the Consolidated Revenue Fund.

As required by section 21 of the Act, we have audited the accounts and financial transactions of the Corporation for the year ended March 31, 1972, and have reported thereon to the Chairman of the Board, with a copy of the report being provided to the Secretary of State.

The following is a summary of the expenditure and revenue of the Corporation for the past two years:

	Year ended March 31 1972	1971
Expenditure—		
Administration, operation and maintenance:		
Salaries, wages and employee benefits	$ 5,181,000	$ 4,339,000
Accommodation	3,154,000	3,363,000
Professional and special services	1,249,000	912,000
Protective services	641,000	574,000
Design and display services	329,000	107,000
Travel	295,000	235,000
Materials and supplies	250,000	212,000
Publications	184,000	149,000
Office supplies and equipment including books	172,000	154,000
Motion picture production and distribution	171,000	121,000
Communications	148,000	132,000
Other	370,000	284,000
	12,144,000	*10,582,000*
Works of art, artifacts and other objects	1,377,000	1,109,000
Equipment and furnishings	465,000	246,000
	13,986,000	11,937,000
Revenue—		
Interest	34,000	56,000
Bequests, etc.—National Museums Trust Account	27,000	61,000
Operating profit—National Museums Special Account	22,000	2,000
Services and service fees	18,000	19,000
Sales of publications, slides, photographs, etc.	14,000	22,000
Insurance recoveries	10,000	—
Refunds of previous years' expenditure	6,000	20,000
Miscellaneous	1,000	—
	132,000	180,000
Excess of expenditure over revenue	$ 13,854,000	$ 11,757,000
Excess of expenditure over revenue provided for by—		
Secretary of State Vote 100 (Vote 90 in 1970-71)	$ 11,164,000	$ 8,210,000
Government departments which provided major services without charge	3,982,000	3,974,000
	15,146,000	12,184,000
Less:		
Increase in balances of special accounts:		
National Museums Purchase Account	1,065,000	152,000
National Museums Special Account	101,000	133,000
National Museums Trust Account	16,000	61,000
	1,182,000	*346,000*
Increase in inventory—National Museums Special Account	70,000	20,000
Amount transferred to Secretary of State as revenue of Canada	40,000	61,000
	1,292,000	427,000
	$ 13,854,000	$ 11,757,000

The increase of $842,000 in salaries, wages and employee benefits was due to revised rates of remuneration and an increase of 15 man-years in the work force. The increase of $337,000 in professional and special services was due mainly to the cost of additional background and research contracts for the renovation program at the Victoria Memorial Museum as well as to general increases in the cost of professional

and special service contracts. The increase of $222,000 in the cost of design and display services was due to the progress of the renovation program at the Victoria Memorial Museum. The cost of accommodation decreased $209,000 mainly as a result of a revision of rental rates by the Department of Public Works.

All moneys appropriated by Parliament for the purchase of objects for the collections of the Corporation are credited to the National Museums Purchase Account. The increase of $1,065,000 in the balance of the Account represents the amount by which the $2,400,000 provided by Secretary of State Vote 100, interest of $32,000 and insurance recoveries of $10,000 exceeded the $1,377,000 expended from the Account on the acquisition of works of art, artifacts and objects. The balance in the Account at March 31, 1972, was $1,244,000.

All moneys appropriated by Parliament for the acquisition or publication and sale to the public of books, pamphlets, replicas and other materials, and the proceeds from sales, are credited to the National Museums Special Account. The increase of $101,000 in the balance of the Account represents the amount by which the $150,000 provided by Secretary of State Vote 100 and $127,000 from the sales of books, pamphlets, replicas and other materials exceeded the $176,000 expended on acquisition and publication of items for sale. The balance in the Account at March 31, 1972, was $281,000.

All moneys received by the Corporation by gift, bequest or otherwise are credited to the National Museums Trust Account. The increase of $16,000 in the balance of the Account results from the receipt of bequests of $25,000 and interest of $2,000 offset by contributions to the editorial costs of publications and to research of $11,000. The balance in the Account at March 31, 1972, was $80,000.

407. *Roosevelt Campobello International Park Commission.* This Commission was established by an agreement between Canada and the United States of America to administer the Roosevelt Campobello International Park, on Campobello Island, N.B., as a memorial to President Franklin Delano Roosevelt. Implementing legislation was enacted in Canada by the Roosevelt Campobello International Park Commission Act, *1964-65, c.19*. The Commission consists of six members, three appointed by the Government of Canada and three by the Government of the United States of America.

Grants to the Commission from the Canadian and United States Governments are made in United States dollars and the books are kept in that currency. Consequently all amounts referred to herein are United States dollar amounts.

The proprietary equity at December 31, 1971, was $947,000, represented by cash, $151,000, capital assets, $799,000, less accounts payable, $3,000.

The following is a summary of the revenue and expenditure for the year ended December 31, 1971, together with comparable figures for the preceding year:

	Year ended December 31	
	1971	1970
Revenue—		
Grants:		
Canada	$ 125,000	$ 88,000
United States of America	125,000	88,000
Other	7,000	8,000
	257,000	184,000
Expenditure—		
Administration, operation and maintenance:		
Salaries, wages and employee benefits	125,000	104,000
Repairs and maintenance	7,000	7,000
Guest houses	6,000	2,000
Publications	5,000	3,000
Travel	5,000	3,000
Light, heat and power	4,000	3,000
Insurance	3,000	3,000
Conferences	3,000	2,000
Professional services	3,000	3,000
Other	8,000	5,000
	169,000	*135,000*
Capital assets	79,000	90,000
	248,000	225,000
Excess of revenue over expenditure	$ 9,000	$ (41,000)

The increase in salaries, wages and employee benefits is due both to a general increase in salary and wage rates for 1971 and to an increase in the number of employees during the year.

408. *Royal Canadian Mounted Police (Dependants) Pension Fund.* This Fund is operated under Part IV of the Royal Canadian Mounted Police Pension Continuation Act, *R.S., c. R-10,* which makes provision for members of the Force other than commissioned officers to provide pensions for their dependants. The Fund is credited with contributions and charged with all pensions, annuities and other benefits paid. Interest on the principal of the Fund is credited at the rate of 4% per annum.

The balance of the Fund at March 31, 1972, was $8,517,000 compared with $8,494,000 at March 31, 1971.

In compliance with section 55 of the Act, we have examined the accounts and financial statement of the Fund for the year ended March 31, 1972, and have reported thereon to the Solicitor General. The following is a summary of the Fund's transactions for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1972	1971
Receipts—		
Contributions by members	$ 184,000	$ 233,000
Interest	333,000	332,000
	517,000	565,000
Disbursements—		
Withdrawals of contributions	364,000	373,000
Pensions to dependants	130,000	137,000
	494,000	510,000
Excess of receipts over disbursements	$ 23,000	$ 55,000

The Act requires that an actuarial valuation of the Fund be made every five years. The last such valuation was made by the Department of Insurance as at March 31, 1969, and like the five preceding quinquennial valuations showed the Fund to be in a surplus position. Following each of these valuations since 1949, an increase in benefits has been implemented on recommendation of the actuary.

409. *Science Council of Canada.* The Council, consisting of a chairman, vice-chairman, twenty-three members and four associate members appointed by the Governor in Council, was established by the Science Council of Canada Act, *R.S., c. S-5*, to assess Canada's scientific and technological resources, requirements and potentialities and to make reports and recommendations thereon to the responsible Minister.

As required by section 18 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1972, and have reported thereon to the Council and to the Minister of State for Science and Technology.

The following is a summary of the expense of the Council for the past two years:

	Year ended March 31	
	1972	1971
Salaries and employee benefits	$ 658,000	$ 574,000
Professional and special services	427,000	378,000
Publication of reports and studies	147,000	59,000
Travel and removal	99,000	110,000
Accommodation	98,000	86,000
Office equipment, furniture, stationery and supplies	75,000	68,000
Telephone, telegrams and postage	28,000	23,000
Miscellaneous	5,000	11,000
Total expense	$ 1,537,000	$ 1,309,000
Total expense provided for by—		
Privy Council Vote 35	$ 1,339,000	$ 1,185,000
Government departments which provided major services without charge	198,000	124,000
	$ 1,537,000	$ 1,309,000

410. *Standards Council of Canada.* This Corporation was established by the Standards Council of Canada Act, *R.S. (1st Supp.), c.41*, and consists of six members employed in the public service of Canada, a member for each of the ten provinces to be nominated by the Lieutenant Governor in Council, and not more than forty-one other members, all to be appointed by the Governor in Council. The objects of the Council are to foster and promote voluntary standardization in fields relating to the construction, manufacture, production, quality, performance, and safety of buildings, structures, manufactured articles and products, and other goods; and to further international co-operation in the field of standards.

At March 31, 1972, the Council had a surplus of $342,000 comprising the unexpended balance of funds provided from Industry, Trade and Commerce Vote 40. (See paragraph 109 of this Report.)

As required by section 19 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1972, and have reported thereon to the Council and to the Minister of Industry, Trade and Commerce.

The following is a summary of the operations of the Council for the year ended March 31, 1972, and for the period October 7, 1970, the date of inception, to March 31, 1971:

	Year ended March 31, 1972	October 7, 1970 to March 31, 1971
Income—		
Payment received pursuant to Industry, Trade and Commerce Vote 40 (Vote 5 in 1970-71)	$ 481,000	$ 155,000
Interest earned	18,000	—
	499,000	155,000
Expense—		
Salaries, wages and employee benefits	84,000	18,000
Contributions *re* membership in international organizations	81,000	—
Travel	48,000	1,000
Professional and special services	27,000	—
Office furniture and equipment	24,000	—
Office accommodation	13,000	1,000
Other	14,000	1,000
	291,000	21,000
Excess of income over expense	$ 208,000	$ 134,000

411. *Unemployment Insurance Commission.* The Unemployment Insurance Act, 1971, *1970-71-72, c.48*, which replaced the Unemployment Insurance Act, *R.S., c. U-2*, in June 1971 provides benefits for workers who are unemployed. The Act is administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the Governor in Council. The Commission is also responsible for the administration of the Government Annuities Act, *R.S., c. G-6.*

The Unemployment Insurance Act, 1971, established the Unemployment Insurance Account as a special account in the Consolidated Revenue Fund to which was transferred the balance standing to the credit of the Unemployment Insurance Fund under the former Act, together with accrued interest. The Account is credited with premiums from employers and employees, an amount equal to the government cost of paying benefits for the immediately preceding calendar year and interest on the balance in the Account. Amounts paid on account of benefits and, effective January 2, 1972, the costs of administration of the Act are charged to the Account.

Significant changes in benefits introduced by the new legislation include benefits to persons with 8 weeks of insured employment, compared to 30 weeks under the previous Act; benefits up to 15 weeks for loss of employment due to sickness or maternity, not previously provided for; and the introduction of a three-week retirement benefit to those between the ages of 65 and 70 who voluntarily withdraw from the labour force.

Canada's contribution under the former Act, equivalent to one-fifth of the employer-employee premiums collected, was replaced by provisions whereby, effective January 1, 1972, Canada assumed the cost of extended benefits under the Act and of benefits attributable to unemployment at a national average rate in excess of four per cent. Payments by Canada to the Account in respect of its contribution under the new Act commence in 1973-74. Where the balance in the Account is insufficient to pay benefits, the Act authorizes the Commission to borrow from Canada an amount sufficient to meet payments arising under the Act, to a maximum of $800 million. At March 31, 1972, the total of such advances was $161,782,000. However, advances subsequent to that date brought the total to approximately $983 million by December 22, 1972. Advances in excess of the statutory limitation of $800 million were made available by means of Governor General's special warrants.

Under the new Act, Canada also assumed the net cost of providing unemployment insurance to fishermen.

The amount of $161,782,000 shown by the Commission as borrowings from Canada at March 31, 1972, differs from the amount of $183,630,000 shown in the Public Accounts as advances to the Commission at that date because of:

The net cost of benefits to fishermen in the period June 27, 1971, to March 31, 1972, recorded by the Receiver General as advances to the Commission whereas they are actually expenditures under section 146 of the Act	$ 14,977,000
An adjustment in April 1972 of a March advance from the Receiver General recorded by the Receiver General as a 1971-72 transaction and by the Commission as a 1972-73 transaction	6,871,000
	$ 21,848,000

The following is a summary of the transactions of the Unemployment Insurance Account/Fund for the year ended March 31, 1972, and the balance at the credit of the Account at that date together with the corresponding amounts for the previous year:

	Year ended March 31	
	1972	1971
Revenue—		
Premiums, net	$ 569,331,000	$ 495,199,000
Contributions from Canada	92,086,000	99,039,000
Income from investments, etc.	15,471,000	29,376,000
	676,888,000	623,614,000
Expenditure—		
Benefit payments	1,147,464,000	783,699,000
Deduct:		
Amount of benefits recoverable from Canada	168,253,000	—
Supplementary benefits provided for by Labour Vote 7b of 1970-71	24,669,000	25,580,000
Cost of benefits to fishermen provided for by statute	16,240,000	—
	209,162,000	*25,580,000*
	938,302,000	758,119,000
Administration expense charged to the Unemployment Insurance Account (January 2 to March 31, 1972)	28,536,000	—
	966,838,000	758,119,000
Excess of expenditure over revenue	289,950,000	134,505,000
Balance at beginning of year	323,637,000	458,142,000
Balance at end of year	$ 33,687,000	$ 323,637,000

Benefits paid under the old Act for the period April 1 to June 26, 1971, totalled $243 million while those paid under the new Act for the period June 27, 1971, to March 31, 1972, totalled $904 million. The total benefit payments of $1,147 million in 1971-72 reflect an increase of $363 million (46%) over benefit payments of $784 million in 1970-71. This increase resulted from a higher level of unemployment and the increased coverage and benefits provided under the new Act.

Expenditure exceeded revenue by $290 million in 1971-72 compared to $135 million for the previous year. The increase in premium revenue that resulted from the extension of insurance coverage to employees previously excluded, and the higher premium rates reflect in the accounts only for the three-month period January 2 (the date from which these changes were effective) to March 31, 1972, whereas the costs of improved benefit payments, and shortening of the qualification period are included for the nine-month period June 27, 1971, to March 31, 1972. Also, administration costs for the three-month period January 2 to March 31, 1972, are included in expenditure. Comparability of results for the past two years is subject to these qualifications.

The cost to Canada of unemployment insurance benefits for the past two years, excluding the cost of administration, is as follows:

	Year ended March 31	
	1972	1971
Contributions representing one-fifth of employer-employee premiums	$ 92,086,000	$ 99,039,000
Supplementary benefits—Labour Vote 7b of 1970-71	24,669,000	25,580,000
Government cost of paying benefits for the period January 1 to March 31, 1972	168,253,000	—
Benefits paid to fishermen, less premiums received $1,263,000	14,977,000	—
	$ 299,985,000	$ 124,619,000

The cost of administration is met by appropriations of the Department of Labour, by charges to the Unemployment Insurance Account and by other government departments which provide certain major services without charge, such as accommodation for the Commission's offices throughout Canada, accounting and other services, as well as contributions to the Public Service Superannuation Account and the Canada and Quebec Pension Plans. Commencing on January 2, 1972, the Account has been charged with that portion of these services which relates to the unemployment insurance function. The following is a summary of administration expense for the past two years:

	Year ended March 31	
	1972	1971
Salaries, wages and other personnel costs	$ 68,584,000	$ 47,651,000
Transportation and communications	7,324,000	4,885,000
Rentals	6,994,000	5,655,000
Professional and special services	5,258,000	2,502,000
Utilities, materials and supplies	2,866,000	2,509,000
Information	1,069,000	294,000
Construction and acquisition of machinery and equipment	768,000	1,482,000
Purchased repairs and upkeep	90,000	54,000
Other	102,000	62,000
	93,055,000	65,094,000
Deduct: Recovered from Canada Pension Plan	438,000	471,000
	$ 92,617,000	$ 64,623,000
Administration expense provided for by—		
Labour Vote 5	$ 55,378,000	$ 53,432,000
Unemployment Insurance Account	28,536,000	—
Government departments which provided certain major services without charge	8,781,000	11,266,000
	92,695,000	64,698,000
Less: Canada Pension Plan recoveries credited to revenue of Canada	78,000	75,000
	$ 92,617,000	$ 64,623,000

The increase of $28 million in administration expense is mainly attributable to the cost of implementing the new Act and to an increase in the number of insurance claims processed. The main increases are: $21 million in salaries, wages and other personnel costs, primarily resulting from an increase in staff from 6,755 at March 31,

1971, to 10,223 at March 31, 1972; $2.4 million in transportation and communications, made up mainly of increases of $1.1 million in staff travel and removal expenses, $900,000 in telephone and telex charges and $400,000 in postage; $1.3 million in rental charges, including $700,000 in office accommodation rentals caused by increased space requirements and $500,000 in increased computer rental charges; and $2.8 million in professional and special services, of which $1.4 million resulted from the transition to new program procedures and $1.3 million from charges by the Department of National Revenue—Taxation for the collection of premiums for the three-month period January 2 to March 31, 1972. The cost of administration of the Government Annuities Act in 1972, $1,347,000 compared with $1,298,000 in 1971, is included in the administration expenses of the Commission.

The verification of employers' records with respect to unemployment insurance was the responsibility of the Commission's revenue control branch to December 31, 1971. Commencing with the calendar year 1972 the Department of National Revenue—Taxation has assumed responsibility for the collection of premiums on behalf of the Commission, as well as responsibility for the audit of the accounts of employers. The Department transfers monthly to the Commission an amount based on a forecast of unemployment insurance premiums compiled by projecting 1969, 1970 and 1971 data to 1972, with adjustments for work force and income growth.

* * * *

This is the last of thirteen Reports to the House of Commons I have made as the Auditor General of Canada. It has been a privilege and an honour to have been able to serve Canada in this way and I hope that in some small measure I have been able to contribute to the well-being of our country and of the Parliament of Canada.

I would like to take this opportunity to express my appreciation to the staff of the Audit Office for their loyalty and devotion across the years. They have been hard pressed and in several respects badly treated in the system under which we have had to operate. I express to them the hope that under my successor the things we have worked for but have been unable to achieve will come to fruition so that the staff and the Office can be of ever increasing service to Parliament and to Canada.

A. M. HENDERSON

Auditor General of Canada

February 28, 1973.

APPENDICES

APPENDIX 1

RECOMMENDATIONS AND OBSERVATIONS BY THE STANDING COMMITTEE ON PUBLIC ACCOUNTS NOT YET IMPLEMENTED OR DEALT WITH

Fourth Report 1963—presented to the House on December 19, 1963

1. SECOND CLASS MAIL. The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it.

   In its Fourth Report 1966-67 the Committee stated that it felt that there was something wrong when no action had been taken with respect to, and apparently very little consideration given to, its recommendation on this matter. The Committee first drew the matter to the attention of the House in its Third Report 1958 and, while minor changes had been made, the annual loss had continued to increase and the Committee was of the opinion that sufficient consideration had not been given to the solution of this problem. It considered it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail, keeping in mind, however, the need of assistance to small independently-owned newspapers circulating in rural areas. *See paragraph 176 of this Report.*

Fourth Report 1964-65—presented to the House on July 28, 1964

2. GOVERNOR GENERAL'S SPECIAL WARRANTS. The Committee recommended that a study be made of Governor General's special warrants.

Sixth Report 1964-65—presented to the House on October 20, 1964

3. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.

   In its Fifth Report 1968-69 the Committee expressed the opinion that, while the Federal Government should continue to assist the provinces in civil emergencies, outstanding accounts should be settled in view of the agreements to pay, or agreement must be reached on cost-sharing. It considered that this item should be included on the agenda of a future Federal-Provincial Conference for clarification and requested the Auditor General to keep it informed on further developments. *See paragraph 135 of this Report.*

4. ERRORS IN PUBLIC SERVICE SUPERANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS. The Committee expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General in 1959), which it regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed.

   In its Seventh Report 1966-67 the Committee noted that immediate steps were being taken to include in the internal auditing procedures of the Superannuation Branch an examination of the employee's contributions in relation to his salary and the documents on file. It

requested the Auditor General to continue to keep it fully informed. *See paragraph 213 of this Report.*

5. INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION. The Committee recorded how, in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

   After hearing further evidence, the Committee stated it continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

   In its Seventh Report 1966-67 the Committee repeated its views on this matter and stated that it was glad to note the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General. *See also item 17 of this Appendix and paragraphs 58, 256 and 348 of this Report.*

6. INDIRECT COMPENSATION TO CHARTERED BANKS. The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

   The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

   In its Seventh Report 1966-67 the Committee noted that notwithstanding this recommendation, Bill C-222, An Act respecting Banks and Banking, given first reading on July 7, 1966, includes a provision under subclause (2) of clause 93 designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest-bearing funds (currently an aggregate of $100 million) on deposit with them.

   In the opinion of the Committee the proposed amendment does not meet its recommendation. *See paragraph 87 of this Report.*

Seventh Report 1964-65—presented to the House on December 7, 1964

7. SURPLUS ASSETS DISPOSAL. The Committee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots and at repair and overhaul contractors' establishments, is not available. In accordance with sound business practice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the Committee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of $1,646 million annually, of which $421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.

The Committee made four recommendations of which the following has not yet been implemented:

> that every effort be made by the Executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department.

Eighth Report 1964-65—presented to the House on December 7, 1964

8. AWARDS UNDER THE PENSION ACT. The Committee made the following recommendations designed to clarify the Act:

(*a*) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";

(*b*) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;

(*c*) that the inconsistency apparent under section 38 of the Pension Act, where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;

(*d*) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;

(*e*) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the

rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

9. WAR VETERANS ALLOWANCES. The Committee made the following recommendations:

(*a*) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;

(*b*) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

In its Fifth Report 1968-69 the Committee expressed concern that its previous recommendation that cases of fraud with respect to war veterans allowances be "vigorously prosecuted" could be interpreted by some as indicating that the Committee's sole interest is in the recovery of the money. The Committee was aware that there may be mitigating circumstances and therefore recommended that the word "vigorously" be deleted.

10. AMENDMENTS TO THE CUSTOMS ACT AND THE EXCISE TAX ACT. The Committee made four recommendations of which the following has not yet been implemented (*see paragraph 167 of this Report*):

Determination of 'sale price' for sales tax purposes—

> that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

In its Fourth Report 1969-70 the Committee informed the House that although the problem remained unsolved, the Deputy Minister had stated that it was being given constant thought and attention and that the Customs and Excise Division was working jointly with the Department of Finance on the matter.

11. AUDIT OF THE OFFICE OF THE AUDITOR GENERAL. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons. In its Third Report 1966-67 the Committee reiterated this recommendation.

Third Report 1966-67—presented to the House on June 28, 1966

12. SEPARATE ACT OF PARLIAMENT. The Committee is of the opinion that all of the characteristics, duties and functions of the Office of the Auditor General should be set out in a separate Act of Parliament governing this Office instead of being a part of the Financial Administration Act.

The Committee reiterated this opinion in its Fifth Report 1969-70.

In its First Report 1972 the Committee requested from the House a reference to draft recommendations for an Auditor General's Act. The House provided the following Order of Reference dated March 27, 1972:

> That the Standing Committee on Public Accounts be authorized to prepare a draft bill concerning the office, functions and powers of the Auditor General.

On March 28, 1972, the Committee passed the following motion:

> That the Chairman of the Committee be authorized to seek assistance from the Auditor General of Canada, the Department of Justice and both Houses of Parliament to prepare a draft bill concerning the office, functions and powers of the Auditor General, such draft bill to be presented to this Committee by October 1, 1972 or at the earliest opportunity thereafter if the Committee is not then sitting.

The Chairman was then directed to write letters to the representatives who would be assisting the Committee advising them of the Committee's decision and explaining that the two chief provisions which the Committee wished included in the draft bill were the independence of the Auditor General and the protection of the public servants on his staff. *See paragraph 8 of this Report.*

13. STANDING COMMITTEE ON PUBLIC ACCOUNTS. The Committee has studied an arrangement in Australia whereby the Public Accounts Committee is appointed under an Act of Parliament instead of under terms of reference by the House of Commons as is the case in Canada.

The Committee believes that control of public expenditure of the size and complexity taking place in Canada today requires a Committee established by statute and recommended that legislation of this type be introduced in the House.

In its Thirteenth Report 1966-67 the Committee reiterated this recommendation and further recommended that the annual Public Accounts and the Report of the Auditor General be referred to the Public Accounts Committee at the time they are tabled in the House.

Fifth Report 1966-67—presented to the House on October 19, 1966

14. POSSIBLE LOSS OF REVENUE WHEN GOODS LOSE TAX-EXEMPT STATUS. The Committee noted the manner in which the Customs and Excise Division of the Department of National Revenue places on owners and importers the onus for reporting any duty or tax which might become payable on non-tax paid equipment or goods. The Department maintains no control on such goods and consequently it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

The Committee urged the Department to strengthen its procedures wherever possible so as to minimize any possible loss of revenue to the Crown.

15. DRAWBACK PAID ON GOODS DESTROYED AFTER RELEASE FROM CUSTOMS. The Committee was concerned to note that it had been the practice of the Department of National Revenue (Customs and Excise Division) to recommend to the Governor in Council that duty drawbacks or remissions be made on goods "destroyed in Canada at the expense of the owner under Customs supervision" when section 22(6) of the Financial Administration Act directs that: "No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

The Committee is of the opinion that the Department should adopt a stricter attitude towards requests for refunds and remissions based on circumstances which lie outside of normal business practice.

16. TAX EXEMPTIONS FOR PARTICULAR GROUPS. Parliament from time to time grants exemptions from sales tax and/or other taxes to institutions such as hospitals or schools and groups of consumers such as loggers, farmers, etc. In the course of discussions with departmental officers and the Auditor General, there were indications that in some cases the benefits of such tax exemptions are enjoyed by those whom Parliament had not intended to assist. The Committee is aware that special exemptions increase the complexities of administering the tax law but, nevertheless, it feels that the laws must be administered so as to ensure that exemptions granted by Parliament are applied only in the way Parliament intended.

The Committee urged the Customs and Excise Division of the Department of National Revenue in its administration of special exemptions always to see to it that the benefits from these exemptions go to, and only to, those for whom Parliament intended them.

Seventh Report 1966-67—presented to the House on October 26, 1966

17. LOANS AND ADVANCES REPRESENTING GRANTS TO CROWN CORPORATIONS. The Committee again criticized the practice of treating amounts paid to a Crown corporation, which did not have means to repay them, as loans and advances rather than expenditures of the Crown. The Committee was disturbed to learn that not only had the financing in this manner of the National Capital Commission not been reviewed by the Department of Finance as requested by it (see item 5) but the practice had been continued and further extended by the Department of Finance in 1965 when the House was asked to approve loans aggregating $14,250,000 to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure.

The Committee again expressed the opinion that expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada. The Committee noted the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General and expects the latter's report thereon in due course. *See paragraphs 58 and 256 of this Report.*

The Committee discussed this matter with officials of the Canadian Broadcasting Corporation at its meeting on January 20, 1970, and in its First Report 1969-70 the Committee reiterated its view that it seems a questionable practice to treat amounts paid to a Crown corporation, which does not have the means to repay them, as loans and advances rather than as expenditures of the Crown. The Committee understood from officials of the Corporation that their preference was that the amounts be treated as grants rather than loans and stated its intention of pursuing the matter further when the officials of the Department of Finance appeared before the Committee.

18. PRAIRIE FARM EMERGENCY FUND. The Committee believes it is important that the matters referred to by the Auditor General in paragraph 46 of his 1964 Report and paragraph 52 of his 1965 Report be rectified and recommended that appropriate legislation be introduced as soon as possible. It requested the Auditor General to keep the matter before the House and the Committee.

Eighth Report 1966-67—presented to the House on November 3, 1966

19. REPAIRS AND ALTERATIONS TO CANADIAN COAST GUARD SHIPS. The Auditor General, in paragraph 85 of his 1964 Report, drew attention to an instance where a ship repairer commenced operations under a contract involving a consideration of $43,346 but the work actually performed under the contract amounted to $130,851 before the ship was returned to service.

The Committee appreciates the problem faced by the Department of Transport when ships for which certain repairs have been contracted for require additional repairs, the need for which is not evident until the ship is opened up.

The Committee also appreciates the danger pointed out by the Auditor General that a shipyard could deliberately bid too low for the repairs specified in order to get the ship into its yard, and then recoup any loss sustained by including excessive profits in charges for the carrying out of the additional work that is found to be required after the ship has been opened up. The Committee feels that everything possible should be done to assure the Canadian taxpayer that the tender system in the case of ship repairs is working to ensure that costs of these repairs are not excessive, and it discussed with departmental officers various ways in which this continuing problem might be overcome.

The Committee recommended that, in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contract subject to cost audit by government auditors.

This activity is now the responsibility of the Department of Supply and Services.

20. COST OF ABANDONED DESIGN PLANS FOR FERRY VESSEL. The Committee discussed with officers of the Department of Transport and the Canadian National Railways the additional payment of $20,000 which had to be made to the architects who were preparing plans for a ferry vessel to operate between Newfoundland and the mainland.

In the opinion of the Committee this additional expenditure resulted because the Department and the C.N.R. had not come to an agreement as to whether the ferry vessel was to be a full icebreaker or simply an ice-strengthened ship, and emphatically stated that the Department should ensure in future that agreement is reached before architects are asked to proceed with the preparation of plans.

Although the Treasury Board had approved payment to the architects of the final amount of $130,000 for the preparation of these plans, the Board had not been advised that this represented an increase of $20,000 over the amount which the architects had originally agreed to accept for the assignment.

The Committee feels very strongly that the Treasury Board must be given all facts when it is being requested to approve of contracts, and it urged the Department to see that future submissions to the Board are complete in this respect.

The Committee, recognizing that the ferries operated by the Canadian National Railways on behalf of the Department of Transport are in effect rail links, recommended that consideration be given to the assuming by the Railways of responsibility for the procurement of ferry vessels as is done with respect to rolling stock requirements.

Tenth Report 1966-67—presented to the House on February 7, 1967

21. SALARIES AND WAGES PAID FOR WORK NOT PERFORMED. The Committee reviewed the practice of the Canadian Broadcasting Corporation in making payments to employees for scheduled hours during daily or weekly tours of duty in excess of actual hours of attendance, noting that such payments aggregate $450,000 per annum. The Committee considered that public funds should not be disbursed for work not performed and that managements of Crown corporations have a responsibility to ensure that the taxpayer's money is not used for non-productive work of this nature. The Committee recommended that such payments be eliminated by the management as and when the present union agreements come up for renewal.

The Committee again reviewed this practice when officials of the Canadian Broadcasting Corporation were before it on January 29, 1970, and in its First Report 1969-70 the Committee recommended that the Canadian Broadcasting Corporation negotiate with the unions involved in an endeavour to eliminate such payments. The Committee was also of the opinion that an effort should be made to have all CBC union contracts terminate at the same time.

22. PROPOSED REMOVAL ALLOWANCE. The Committee recommended that the Department of National Defence give consideration to recommending the establishment of a cash allowance for members of the Armed Forces being transferred equivalent to 90% of the estimated costs of moving their furniture and that it advise the Chairman of the Committee and the Auditor General of its decision.

In its Fifth Report 1968-69 the Committee noted that the Deputy Minister of National Defence had advised that disadvantages in such a scheme were such as to make it unwise to establish a cash allowance. However, the Committee remained of the opinion that serious consideration should be given to such a plan and requested the Deputy Minister of National Defence to review this subject and report.

Eleventh Report 1966-67—presented to the House on February 7, 1967

23. CENTRAL MORTGAGE AND HOUSING CORPORATION—REPORTS OF THE AUDITORS. The Committee is of the opinion that it is entitled to be furnished with copies of all reports made by the external auditors of any Crown corporation and requested that the Minister responsible for Central Mortgage and Housing Corporation instruct the Corporation to make these available to the Committee for the fiscal years ended December 31, 1963 and December 31, 1964 and to do so without further delay.

Twelfth Report 1966-67—presented to the House on February 9, 1967

24. RECONSTITUTION OF FINANCIAL STRUCTURE OF THE NATIONAL HARBOURS BOARD. The Committee is concerned that there appears to be little prospect of the National Harbours Board being in a position to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter was to be dealt with by the Department of Finance and the Board within the next twelve months. *See paragraphs 279 and 349 of this Report.*

Thirteenth Report 1966-67—presented to the House on March 1, 1967

25. PARLIAMENTARY CONTROL OF EXPENDITURE. The Committee expressed the opinion that there is a weakening of parliamentary control when Parliament is unable to take the time to examine in detail the amounts being requested as interim supply particularly when these exceed the normal one-twelfth for each month for which interim supply is requested. It

considers it unfortunate that the parliamentary rules do not provide for immediate consideration of the Estimates after they are presented to the House so that the proposed spending can be approved and interim supply would not be required so extensively. It feels that the rules could and should be changed in this regard in order not only to strengthen parliamentary control of public funds but to give the Executive the clear mandate it deserves in the discharge of its heavy responsibilities.

The Committee submitted recommendations designed to strengthen parliamentary control of public expenditures in the future of which the following is still outstanding (*see paragraph 54 of this Report*):

> that there be no change in the Treasury Board's procedure whereby it is the agency which determines the Government's overall cash requirements in stated areas, e.g. salary increases. However, once this determination is completed and the individual departmental needs established, the Committee believes that the additional amount required by each department should be made the subject of a supplementary estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner.

In its Second Report 1972 the Committee, expressing concern at the existence of a substantial reserve fund established from the unused balances in the annual Contingencies Votes, strongly reiterated this recommendation.

Fifth Report 1968-69—presented to the House on June 26, 1969

26. EXCESSIVE ADVANCE PAYMENTS UNDER CONTRACTS. The Committee noted that an advance payment of $6.7 million, the full amount of a contract, had been made in March 1966 under a contract entered into on March 21, 1966. The Committee did not approve of the circumventing of the lapsing provision of section 35 of the Financial Administration Act in this way and recommended that the Treasury Board instruct departments not to contract themselves into obligations to make advance payments in order to avoid the lapsing of any portion of an appropriation.

First Report 1969-70—presented to the House on February 12, 1970

27. EMERGENCY BROADCASTING. Although the costs incurred by the Canadian Broadcasting Corporation in providing the emergency broadcasting service had been reduced, the Committee expressed the opinion that the costs should be borne by the organization receiving the service and that the estimates of the Canadian Broadcasting Corporation should be reduced accordingly.

Second Report 1969-70—presented to the House on March 4, 1970

28. CO-ORDINATION OF RESEARCH AND DEVELOPMENT ASSISTANCE TO INDUSTRY. The Committee expressed the opinion that a central record of payments to various companies, by departments, should be kept by the Department of Industry, Trade and Commerce to prevent a possible duplication of effort and possible duplicate grants of funds.

Fourth Report 1969-70—presented to the House on June 23, 1970

29. DELAY IN COLLECTING SALES TAX. The Committee noted that some licensed manufacturers prefer to collect sales tax on all their sales including sales of fully manufactured goods purchased by them for resale on which they had already been required to pay sales tax. In such cases the Department of National Revenue, by regulation, permits them to immediately deduct any sales tax paid by them on these purchases from amounts currently due to the

Department with respect to their taxable sales. The effect of this regulation is that a manufacturer's inventory of fully manufactured goods purchased for resale is carried free of sales tax and the requirement of the law that sales tax be paid at the time of purchase of fully manufactured goods for resale is completely negated. The Committee, noting that there was no loss of revenue and that the Department was of the opinion that the practice being followed was less cumbersome than the practice called for by section 30 of the Excise Tax Act, expressed the opinion that an amendment to section 30 of the Excise Tax Act should be sought. *See paragraph 168 of this Report.*

30. PROVISION OF NAVIGATIONAL AIDS WITHOUT CHARGE TO USERS. The Committee expressed the opinion that, in line with Government policy and the recommendation of the Royal Commission on Government Organization, the Department of Transport should apply user charges where possible in connection with the provision of navigational aids, and in those areas where user charges are not feasible, the Department of Transport should seek authority from the Executive to continue to supply the services without charge.

First Report 1970-71—presented to the House on November 26, 1970

31. INCREASING ACCOMMODATION RENTAL COSTS. The Committee noted the increasing cost of rentals by the Crown and recommended that accommodation and damage costs be made a charge to each department's appropriation rather than have the Department of Public Works pay a large part of this sum out of its own appropriation. The Committee expressed the view that this change might make departments willing to seek more modest accommodation in an effort to keep their estimates within reasonable bounds. *See paragraph 186 of this Report.*

Third Report 1970-71—presented to the House on January 28, 1971

32. CANADIAN BROADCASTING CORPORATION—HOTEL ACCOMMODATION RATES. In the course of a special study of travel expense claims of the Canadian Broadcasting Corporation the Committee noted that bench-mark hotel accommodation rates had been set for locations in Canada and recommended that similar bench-mark hotel accommodation rates be established for all centres wherever feasible.

33. CANADIAN BROADCASTING CORPORATION—PER DIEM TRAVEL ALLOWANCES. The Committee recommended that where possible, per diem allowances to cover meal costs including gratuities, should be established for all areas for which there are now no per diem rates.

Fifth Report 1970-71—presented to the House on March 10, 1971

34. FEDERAL-PROVINCIAL SHARED-COST PROGRAMS. In accordance with the suggestion of the Auditor General, the Committee recommended that a detailed summary of federal-provincial shared-cost programs be provided as an appendix to the Public Accounts to show the federal share of the cost of each program on an annual and cumulative basis. The Committee further recommended that the information on the federal share of each program be provided by province. *See paragraph 227 and Appendix 2 of this Report.*

Sixth Report 1970-71—presented to the House on June 30, 1971

35. LEASE RENEWALS. The Committee had become aware of instances where after a lease on public property had expired, the Crown had accepted continued rental payments beyond the expiry date and before the lease was renewed and then found that it had been unable to set a higher rental rate for such period without the lessee's consent because the original rental rates had

been accepted unconditionally in the interim. Noting with approval that the Department of Transport now places in all leases with renewal options a clause stipulating that rental payments accepted after the expiry of the original term would be conditional only, the Committee recommended that this practice be adopted by other departments and Crown agencies.

36. RECOVERABLE COSTS OF INDO-CHINA TRUCE COMMISSION. Noting that Canada had incurred costs totalling $2,772,000 in connection with its membership on the Indo-China Truce Commission, which it had been unsuccessful in recovering because of the failure of other participants in the Commission to meet their share of the operating costs of the Commission, the Committee recommended that the Department of External Affairs consider the advisability of taking diplomatic initiatives to resolve the situation. *See paragraph 259 of this Report.*

37. LIMITED COMPETITION FOR GOVERNMENT BUSINESS. The Committee recommended that as existing procurement contracts for security printing, such as postage stamps, revenue stamps, and passports expire, competition be broadened to include, in competitive tendering, qualified Canadian firms. *See paragraph 209 of this Report.*

Second Report 1972—presented to the House on June 8, 1972

38. CANADA DEPOSIT INSURANCE CORPORATION. The Committee was of the opinion that Order in Council P.C. 1968-10/585 of March 28, 1968, remitting under section 17 (formerly 22) of the Financial Administration Act any income tax payable by the Corporation, should be revoked and the Corporation required to pay income tax. *See paragraph 328 of this Report.*

39. CANADA PENSION PLAN ACCOUNT. The Committee directed the attention of the House to the fact that although the Auditor General is carrying out an examination of the transactions in the Canada Pension Plan Account and the Canada Pension Plan Investment Fund and reporting thereon to the House, there is no requirement in the Canada Pension Plan Act that this be done. The Committee was of the opinion that the Act establishing the Canada Pension Plan should be amended to provide for this at the first suitable opportunity.

Third Report 1972—presented to the House on June 30, 1972

40. FAILURE OF A CROWN CORPORATION TO DEDUCT AND REMIT EMPLOYEES' TAXES AND TO PAY OTHER CONTRIBUTIONS TO THE UNITED STATES GOVERNMENT. The Committee studied the circumstances giving rise to the payment made to the United States Internal Revenue Service by the Canadian Broadcasting Corporation with respect to United States income and social security taxes for its employees in the United States, and recommended that the Corporation immediately take steps to attempt to recover the $134,573.99 from the 17 employees involved. *See paragraph 73 of this Report.*

APPENDIX 2

SUMMARY OF CANADA'S CONTRIBUTIONS TO FEDERAL-PROVINCIAL SHARED-COST PROGRAMS FOR THE FISCAL YEAR ENDED MARCH 31, 1972

(with comparative figures for the preceding fiscal year)

(in thousands of dollars)

See paragraph 227 of this Report.

	Year ended March 31											
	1972	1971	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
Agriculture—												
Crop insurance	3,158			39	38			490	1,004	362	978	247
		2,898		*20*	*17*			*398*	*867*	*324*	*1,022*	*250*
Experimental crop insurance	878						878					
		920					*920*					
Grants to 4-H Clubs	170		4	3	9	4	21	68	15	20	16	10
		168	*4*	*4*	*9*	*3*	*19*	*68*	*15*	*19*	*17*	*10*
Programs under $100,000 (5 in each year)	175					1	10	88	16	15	25	20
		190		*2*	*3*	*2*	*9*	*95*	*14*	*17*	*47*	*1*
	4,381	*4,176*										
Energy, Mines and Resources—												
Costs arising from closure of the McBean Mine, Pictou Co., N.S.	500	—			500							
Aeromagnetic surveys	270						215					55
		270					*215*					*55*
Programs under $100,000 (1 in each year)	6									6		
		15								*14*		*1*
	776	*285*										
Environment—												
Construction of dams and other works to assist in the conservation and control of water resources	2,051							80	78	64		1,829
		1,596						*396*	*201*	*92*		*907*
Industrial development	1,172		611	79	250	136	48	26				22
		1,199	*609*	*52*	*274*	*189*	*52*	*19*				*4*
Saskatchewan-Nelson Basin Board	645								215	215	215	
		1,291							*1,291*			
Inventory of forest resources and land capability studies	627		627									
		693	*693*									
Saint John River Basin Board	257	—				257						

SUMMARY OF CANADA'S CONTRIBUTIONS TO FEDERAL-PROVINCIAL SHARED-COST PROGRAMS FOR THE FISCAL YEAR ENDED MARCH 31, 1972—Continued

(with comparative figures for the preceding fiscal year)

(in thousands of dollars)

See paragraph 227 of this Report.

	Year ended March 31 1972	Year ended March 31 1971	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
Emergency assistance for marine and freshwater fish industry—mercury pollution	213	—			174			39				
Prairie Provinces Water Board	111	—							34	42	35	
Newfoundland fisheries household resettlement	—	168	*168*									
Programs under $100,000 (1 in each year)	71							71				
		48						*48*				
	5,147	*4,995*										
External Affairs—												
International Joint Commission	295							295				
		317						*317*				
Indian Affairs and Northern Development—												
Fur and other resources conservation	572							195	317	60		
		237						*125*	*52*	*60*		
Social assistance and child welfare	410		119						216		75	
		174	*113*						*61*			
Roads on and to Reserves	398								160	238		
		493				*3*			*215*	*231*		*44*
Community development—on and off Reserves	98							98				
		360						*259*			*99*	*2*
	1,478	*1,264*										
Industry, Trade and Commerce—												
Returns on vital statistics	68		2	1	3	2	16	25	3	3	6	7
		81	*3*		*3*	*3*	*23*	*28*	*4*	*5*	*3*	*9*
Manpower and Immigration—												
Capital assistance in the provision of training facilities for adult occupational training	75,589		4,130	878	4,148	4,897	28,502		12,732	7,701		12,601
		169,498	*8,574*	*2,188*	*9,384*	*10,985*	*76,523*	*7,758*	*19,054*	*13,765*	*1,404*	*19,863*

Vocational rehabilitation of disabled persons	6,495		47	14	230	74		3,738	916	722	504	250
		5,259	*44*	*17*	*265*	*146*		*2,734*	*712*	*626*	*510*	*205*
Agricultural manpower	153			1	11	4	51	29	5	3	48	1
		151		*2*	*5*	*2*	*35*	*56*	*13*	*2*	*34*	*2*
Programs under $100,000 (2 in 1971–72)	94							29				65
(1 in 1970–71)		42						*31*				*11*
	82,331	*174,950*										
National Defence—												
Emergency measures	2,981		83	21	133	34	847	1,073	136	120	227	307
		2,982	*82*	*21*	*112*	*33*	*843*	*1,077*	*144*	*127*	*234*	*309*
National Health and Welfare—(Note 2)												
Hospital insurance and diagnostic services	842,267		27,120	5,232	42,760	34,735		427,515	53,492	49,467	94,836	107,110
		732,065	*24,002*	*4,829*	*37,498*	*28,077*		*368,786*	*46,894*	*43,982*	*82,521*	*95,476*
Medical care	575,547		14,349	2,897	20,656	16,167	159,810	203,732	27,487	25,417	45,008	60,024
		400,497	*12,257*	*809*	*17,754*	*3,426*	*56,126*	*174,452*	*23,194*	*22,470*	*38,074*	*51,935*
Canada Assistance Plan	455,702		25,559	4,041	21,857	20,228		211,035	36,304	25,307	42,808	68,563
		390,089	*21,967*	*3,766*	*16,743*	*15,242*		*176,164*	*28,187*	*20,621*	*39,192*	*68,207*
Health Resources Fund	37,000		699		1,176	2	7,218	17,361	716	2,953	4,563	2,312
		37,500	*101*	*4*	*376*	*170*	*8,743*	*19,465*	*761*	*1,730*	*4,860*	*1,290*
General health grants	11,703		339	153	689	407	1,586	4,385	1,030	789	897	1,428
		17,350	*611*	*250*	*934*	*657*	*1,741*	*6,601*	*1,425*	*1,355*	*1,569*	*2,207*
Disabled persons allowances	3,175		12	5	169	901	−9	138	158	29	628	1,144
		3,547	*17*	*13*	*223*	*957*	*−4*	*214*	*283*	*40*	*678*	*1,126*
Blind persons allowances	1,493		238	32	324	272	−1	73	97	28	146	284
		1,609	*248*	*33*	*339*	*289*	*−1*	*81*	*130*	*39*	*165*	*286*
Fitness and amateur sport	282		47	57	77	101						
		449	*30*	*26*	*32*	*31*	*81*	*96*	*34*	*34*	*40*	*45*
Unemployment assistance	118							54			64	
		306						*214*			*92*	
National welfare grants	99			5	6	6		54			15	13
		125	*7*	8	*12*	*14*		*61*		*3*	*8*	*12*
Old age assistance	−149		−10		−6	−4	−66	−22	−8	−7	−13	−13
		−159	*−12*	*−1*	*−11*	*−8*	*−54*	*−23*	*−11*	*−10*	*−16*	*−13*
Programs under $100,000 (2 in each year)	1											1
		2				*1*						*1*
	1,927,238	*1,583,380*										
Public Works—												
Trans-Canada Highway	2,338						7	2,331				
		39,573	*9,607*	*88*	*1,456*	*4,153*	*13,600*	*5,674*	*947*	*1,263*	*916*	*1,869*
Construction of highway in counties of Matane and Gaspé North, Que.	648						648					
		1,729					*1,729*					
Demolition and construction of Desjardins Bridge, Notre-Dame du Nord, Que.	188						188					
		9					*9*					

SUMMARY OF CANADA'S CONTRIBUTIONS TO FEDERAL-PROVINCIAL SHARED-COST PROGRAMS FOR THE FISCAL YEAR ENDED MARCH 31, 1972

(with comparative figures for the preceding fiscal year)

(in thousands of dollars)

See paragraph 227 of this Report.

	Year ended March 31 1972	Year ended March 31 1971	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
Programs under $100,000 (4 in each year)	165					6	88	24				47
		111					*59*	*8*				*44*
	3,339	*41,422*										
Regional Economic Expansion—												
Fund for Rural Economic Development (FRED)	48,600			9,728		4,618	29,432		4,822			
		25,857		*6,115*		*3,505*	*12,145*		*4,092*			
Agricultural and Rural Development Act (ARDA)	14,513		127		564	513	2,710	6,147	874	2,256	396	926
		18,088	*365*		*1,240*	*707*	*1,793*	*4,889*	*1,295*	*2,125*	*3,855*	*1,819*
Newfoundland fisheries resettlement	684		684									
		808	*808*									
Gimli Recreation Complex	393	—							393			
Management Engineering Services	270	—			270							
Surveying Atlantic Provinces—Accommodation	268			268								
		131		*131*								
Avon River Causeway Dam	252				252							
		520			*520*							
Federal-Provincial Research and Development Studies	238				11	227						
		253				*253*						
New Brunswick Multiplex Corporation	151	—				151						
Feasibility Studies, special areas	147	—				127			15		5	
Shellmouth, Man., dam and portage diversion	41								41			
		509							*509*			
Programs under $100,000 (2 in 1971–72)	38				12	11			7	8		
(1 in 1970–71)		40			*20*	*20*						
	65,595	*46,206*										

Regional Economic Expansion—*Concl.*												
Infrastructure Grants												
Water and sewers	6,319		638		424	2,750	2,301			17	189	
		5,868	*1,400*		*1,681*	*1,152*	*1,510*			*45*	*80*	
Educational facilities	4,356		2,737		1,164	239				109	107	
		9,401	*4,422*		*2,475*	*1,715*				*418*	*371*	
Roads and highways	3,489		567		787	205	1,303				627	
		2,146	*61*		*1,768*	*317*						
Tourism development	1,136						1,136					
		949					*949*					
Industrial parks	782		120		31	184	195			252		
		1,284	*645*				*576*			*63*		
Manpower Corps	431								431			
		238							*81*		*157*	
Housing	142						142					
		736					*736*					
Research and Scientific Centre	—	238					*238*					
Programs under $100,000 (1 in each year)	2									2		
		9								*9*		
	16,657	*20,869*										
Commitments of the Atlantic Development Board—												
Viability Study	54	—			54							
Industrial park facilities	24				24							
		161			*161*							
Research facilities	15					15						
		239				*239*						
Programs under $100,000 (1 in 1971-72)	6		6									
(2 in 1970-71)		24	*6*		*17*	*1*						
	99	*424*										
Secretary of State—												
Post-secondary education (Note 3)	450,459		6,347	1,382	15,956	8,241	149,732	157,188	19,449	16,065	61,404	14,695
		388,269	*5,905*	*1,341*	*13,850*	*7,590*	*114,115*	*143,409*	*17,454*	*15,072*	*54,069*	*15,464*
Bilingualism development	73,318		182	129	847	6,712	40,361	21,451	1,134	433	1,050	1,019
		50,000	*123*	*101*	*734*	*3,695*	*29,987*	*12,164*	*850*	*597*	*865*	*884*
Citizenship and language instruction for immigrants	382				4	1	155	210	7		5	
		864				*1*	*32*	*791*	*6*	*5*		*29*
Young Voyageurs program	127	—	4	3	8	6	30	29	8	8	11	20
Language texts for citizenship classes	120				4			66		8	6	36
		109					*33*	*63*	*4*	*1*	*8*	
Indian Friendship Centres	71								69	2		
		105							*48*	*23*	*34*	
Programs under $100,000 (1 in each year)	96								69	24	3	
		47				*47*						
	524,573	*439,394*										

SUMMARY OF CANADA'S CONTRIBUTIONS TO FEDERAL-PROVINCIAL SHARED-COST PROGRAMS FOR THE FISCAL YEAR ENDED MARCH 31, 1972—Concluded

(with comparative figures for the preceding fiscal year)

(in thousands of dollars)

See paragraph 227 of this Report.

	Year ended March 31 1972	Year ended March 31 1971	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
Transport—												
National Harbours Board—Construction of retaining wall along banks of St. Charles River, Que.	2,138						2,138					
		2,812					*2,812*					
Moosonee Airport development	—	295						*295*				
Programs under $100,000 (1 in 1971–72)	5							5				
(3 in 1970–71)		28			*11*			*14*			*3*	
	2,143	*3,135*										
Treasury Board—												
National Research Council—Technical information services	380				65	52		67		63	67	66
		373			*63*	*51*		*67*		*63*	*65*	*64*
Urban Affairs and Housing—												
Losses on the operation of public housing projects	34,900		700		1,100	1,200	800	29,300	500	600	100	600
		9,411	*147*		*427*	*511*	*901*	*6,688*	*81*	*338*	*4*	*314*
	2,672,381		86,088	24,968	114,781	103,482	430,492	1,087,487	162,942	133,401	255,051	273,689
		2,333,664	*93,007*	*19,819*	*108,395*	*84,179*	*326,495*	*933,582*	*148,907*	*125,568*	*230,980*	*262,732*

NOTES:

(1) The expenditures shown are direct costs only and do not include federal administrative expenses.

(2) Not included in the expenditures are tax abatements and tax equalization payments of $660,771,589 in 1971–72 and $547,794,000 in 1970–71 to the Province of Quebec, following its decision in 1965 under the Established Programs (Interim Arrangements) Act, *R.S., c. E-8*, to wholly administer and finance certain standing programs. These programs are hospital insurance and diagnostic services, Canada Assistance Plan, disabled persons allowances, old age assistance, blind persons allowances, unemployment assistance and certain aspects of general health grants.

(3) In addition to the expenditure shown under Secretary of State for post-secondary education, there were tax abatements and tax equalization payments to all provinces relating to post-secondary education, totalling $427,393,000 in 1971–72 and $389,754,000 in 1970–71.

EXHIBITS

(as published in the Public Accounts)

THE GOVERNMENT OF CANADA

Statement of Expenditure and Revenue for the Fiscal Year Ended March 31, 1972

(with comparative figures for the preceding fiscal year)

EXPENDITURE

	Fiscal year ended March 31, 1972	Fiscal year ended March 31, 1971
Agriculture	$ 286,095,584	$ 277,005,746
Communications	21,674,219	13,896,987
Consumer and Corporate Affairs	23,945,624	20,219,433
Energy, Mines and Resources	86,114,893	72,802,213
Atomic Energy	89,465,508	76,685,608
Environment	200,723,618	156,671,046
External Affairs	314,448,113	281,585,333
Finance—		
Public debt charges	2,009,652,093	1,822,843,841
Fiscal, tax-sharing, subsidies and other payments to provinces	1,425,517,585	1,228,946,153
Other expenditure	101,904,569	83,699,588
	3,537,074,247	*3,135,489,582*
Auditor General	3,905,323	3,105,045
Insurance	1,100,823	949,778
Governor General and Lieutenant-Governors	1,197,180	1,152,820
Indian Affairs and Northern Development	426,643,569	350,654,455
Industry, Trade and Commerce	362,699,299	250,568,846
Justice	28,718,595	23,090,421
Labour	17,306,385	13,477,845
Manpower and Immigration	619,528,717	570,750,039
Unemployment Insurance Commission	173,388,110	178,051,441
National Defence—		
Defence services	1,598,213,134	1,517,218,111
Defence research	46,980,850	45,862,787
Other expenditure	249,980,873	254,795,313
	1,895,174,857	*1,817,876,211*
National Health and Welfare—		
Family allowances	554,407,334	557,877,824
Other expenditure	2,151,667,773	1,780,117,943
	2,706,075,107	*2,337,995,767*
National Revenue	185,245,489	158,477,593
Parliament	32,596,913	27,235,651
Post Office	413,334,381	368,595,978
Privy Council	15,530,661	13,054,951
Public Works	336,756,429	330,657,604
Regional Economic Expansion	346,393,152	297,830,514
Secretary of State	686,834,331	541,939,869
Canadian Broadcasting Corporation	181,000,000	166,000,000
Solicitor General	87,356,011	76,484,241
Royal Canadian Mounted Police	172,706,183	146,304,796
Supply and Services	83,725,799	74,647,225
Transport	512,446,351	450,105,029
Treasury Board	307,624,285	340,515,626
National Research Council	130,804,087	122,917,256
Urban Affairs and Housing	47,704,531	28,400,000
Central Mortgage and Housing Corporation	82,240,056	46,987,307
Veterans Affairs—		
Pensions	235,317,479	216,357,437
Other expenditure	187,969,242	193,603,843
	423,286,721	*409,961,280*
Total expenditure	14,840,865,151	13,182,143,536
Budgetary surplus or deficit (−)	−614,307,381	−379,092,128
	14,226,557,770	12,803,051,408

S. S. REISMAN,
Deputy Minister of Finance.

H. R. BALLS,
Deputy Receiver General for Canada.

(This Statement is to be found on pages 9.2 and 9.3 of the Public Accounts, Volume I)

EXHIBIT 1

REVENUE

	Fiscal year ended March 31, 1972	Fiscal year ended March 31, 1971
Tax revenue—		
Income tax—		
Personal[1]	$5,581,982,675	$4,696,481,982
Corporation[1]	2,183,132,185	2,218,528,208
On dividends, interest, etc., going abroad	287,726,724	258,151,272
Social development tax	408,400,000	566,250,000
Excise taxes—		
Sales[1]	1,984,706,695	1,707,500,713
Other	388,410,660	403,223,374
Customs import duties	988,598,886	814,544,225
Excise duties	606,551,387	561,037,941
Estate tax	132,015,952	119,835,070
Miscellaneous	392,358	314,709
	12,561,917,522	*11,345,867,494*
Non-tax revenue—		
Return on investments	1,133,231,110	1,000,153,367
Post Office—net postal revenue	403,791,138	337,570,317
Refunds of previous years' expenditure	21,481,801	23,045,061
Services and service fees	17,863,304	17,065,324
Proceeds from sales	15,677,551	14,015,809
Privileges, licences and permits	28,326,786	26,294,375
Bullion and coinage	23,549,984	19,946,203
Premium, discount and exchange		812,595
Miscellaneous	20,718,574	18,280,863
	1,664,640,248	*1,457,183,914*

[1]Excluding tax credited to:

	1971–72	1970–71
Old age security fund—		
Personal income tax	1,237,000,000	1,132,500,000
Corporation income tax	212,500,000	207,900,000
Sales tax	668,532,491	573,849,158

Total revenue	14,226,557,770	12,803,051,408

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act, I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Receiver General for Canada and that, in my opinion, it exhibits a correct view of the expenditure and revenue of Canada for the year ended March 31, 1972.

A. M. HENDERSON,
Auditor General.

THE GOVERNMENT OF CANADA

Statement of Assets and Liabilities as at March 31, 1972

(with comparative figures as at March 31, 1971)

	March 31, 1972	March 31, 1971	Net increase or decrease (−) during 1971–72
ASSETS	$	$	$
1. Current assets—			
(a) Cash, schedule A, page 7	1,823,883,254	1,599,287,435	224,595,819
(b) Securities held for the securities investment account at amortized cost	56,031,174	56,931,602	−900,428
(c) Other current assets, schedule B, page 7	79,986,694	52,698,352	27,288,342
	1,959,901,122	*1,708,917,389*	*250,983,733*
2. Departmental working capital advances, schedule C, page 7	171,966,182	194,312,281	−22,346,099
3. Foreign exchange reserve accounts—			
(a) Exchange Fund Account—(value of investments from advances on basis of closing market rates at March 31, 1972 $5,229,763,805 and at March 31, 1971 $4,338,159,534)	5,516,279,053	4,578,423,991	937,855,062
(b) Canada's subscription to capital of the International Monetary Fund	1,141,326,769	1,148,880,764	−7,553,995
	6,657,605,822	*5,727,304,755*	*930,301,067*
4. Social security accounts, schedule D, page 9—			
Canada Pension Plan investment fund	4,611,303,000	3,701,275,000	910,028,000
Unemployment Insurance Account—Advances—All or part to be recovered by parliamentary appropriations	183,630,532		183,630,532
	4,794,933,532	*3,701,275,000*	*1,093,658,532*
5. Investments held for retirement of unmatured debt	15,385,722	6,875,017	8,510,705
6. Advances, loans and investments—Domestic, schedule E, page 9—			
(a) Loans to, and investments in, crown corporations	11,822,454,578	10,606,167,948	1,216,286,630
Recovery likely to require parliamentary appropriations	175,310,777	149,085,810	26,224,967
(b) Loans to provincial governments	504,926,647	359,949,199	144,977,448
(c) Municipal Development and Loan Board advances	254,110,836	263,554,972	−9,444,136
(d) Veterans Land Act fund (less reserve for conditional benefits)	502,788,422	492,339,217	10,449,205
(e) Miscellaneous	490,091,309	320,265,483	169,825,826
	13,749,682,569	*12,191,362,629*	*1,558,319,940*
7. Advances, loans and investments—External, schedule F, page 15—			
(a) Loans to national governments	1,513,165,342	1,406,097,348	107,067,994
(b) Subscriptions to capital of and working capital advances and loans to, international organizations	325,733,564	275,035,884	50,697,680
(c) Investments in United States dollar securities issued by other than the Government of Canada—Columbia River Treaty		25,754,161	−25,754,161
	1,838,898,906	*1,706,887,393*	*132,011,513*
8. Securities held in trust, schedule G, page 16	128,673,061	124,490,532	4,182,529
9. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account	331,140,000	227,240,000	103,900,000
Public service superannuation account	402,670,233	311,196,400	91,473,833
Royal Canadian Mounted Police superannuation account	18,748,000	30,005,400	−11,257,400
(b) Unamortized loan flotation costs, section 11, page 10	168,908,634	175,143,932	−6,235,298
	921,466,867	*743,585,732*	*177,881,135*
10. Capital assets	1	1	
11. Inactive loans and investments, schedule H, page 17	94,824,381	94,824,381	
Total recorded assets	30,333,338,165	26,199,835,110	4,133,503,055
12. *Less:* Reserve for losses on realization of assets	−546,384,065	−546,384,065	
Net recorded assets	29,786,954,100	25,653,451,045	4,133,503,055
13. Net debt, represented by excess of liabilities over net recorded assets, schedule I, page 17	17,936,681,625	17,322,374,244	614,307,381
	47,723,635,725	42,975,825,289	4,747,810,436

The notes appearing on page 4 are an integral part of this Statement of Assets and Liabilities.

S. S. REISMAN,
Deputy Minister of Finance.

H. R. BALLS,
Deputy Receiver General for Canada.

(This Statement and the schedules and pages referred to therein are to be found in the Public Accounts, Volume I, Section 10, except where otherwise indicated)

EXHIBIT 2

	March 31, 1972	March 31, 1971	Net increase or decrease (−) during 1971–72
LIABILITIES	$	$	$
14. Current and demand liabilities, schedule J, page 17—			
(a) Outstanding cheques	737,049,519	630,333,381	106,716,138
(b) Accounts payable (that portion paid in April of the next following year)	649,746,071	582,300,567	67,445,504
(c) Non-interest-bearing notes payable to international organizations	32,569,376	7,048,532	25,520,844
(d) Matured debt outstanding	31,037,041	32,729,140	−1,692,099
(e) Interest due and outstanding	559,156,382	325,577,376	233,579,006
(f) Interest accrued	539,824,615	495,600,944	44,223,671
(g) Other current liabilities	131,795,886	89,304,037	42,491,849
	2,681,178,890	*2,162,893,977*	*518,284,913*
15. Foreign exchange reserve accounts—			
(a) Non-interest-bearing notes payable to the International Monetary Fund	750,000,000	635,000,000	115,000,000
(b) Allocation of Special Drawing Rights in the International Monetary Fund	370,279,053	253,423,990	116,855,063
	1,120,279,053	*888,423,990*	*231,855,063*
16. Deposit and trust accounts, schedule K, page 19	600,191,074	439,183,779	161,007,295
17. Annuity, insurance and pension accounts, schedule L, page 23—			
(a) Social security accounts			
Canada Pension Plan	4,778,458,561	3,843,577,393	934,881,168
Old Age Security Fund	641,100,004	728,422,342	−87,322,338
Unemployment Insurance Account	36,897,305	−2,646,751	39,544,056
(b) Superannuation accounts	8,672,309,822	7,760,361,754	911,948,068
(c) Other	1,447,515,017	1,445,263,043	2,251,974
	15,576,280,709	*13,774,977,781*	*1,801,302,928*
18. Undisbursed balances of appropriations to special accounts, schedule M, page 24	190,699,274	266,598,006	−75,898,732
19. Refundable corporation tax	1,904,574	3,064,986	−1,160,412
20. Provision for compound interest on Canada Savings Bonds, schedule N, page 25	56,864,079	18,582,473	38,281,606
21. Deferred credits, schedule O, page 25	231,735,484	216,813,957	14,921,527
22. Suspense accounts, schedule P, page 25	6,002,765	4,129,739	1,873,026
23. Unmatured debt, schedule Q, page 27			
(a) Bonds	23,428,499,823	21,466,156,601	1,962,343,222
(b) Treasury bills	3,830,000,000	3,735,000,000	95,000,000
	27,258,499,823	*25,201,156,601*	*2,057,343,222*
Total liabilities	47,723,635,725	42,975,825,289	4,747,810,436

NOTE:

The contingent liabilities of the Government of Canada, consisting of railway securities guaranteed as to principal and interest $821,712,000; other guarantees of $10,827,645,950; together with certain indeterminate guarantees, are listed on page 83.

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Receiver General for Canada and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1972.

A. M. HENDERSON,
Auditor General.

EXHIBIT 3

Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the Fiscal Year ended March 31, 1972

Section (Volume II)	Department	Appropriations	Expenditures	Unexpended Balances: Lapsed	Unexpended Balances: Carried forward[1]
		$	$	$	$
1	Agriculture	[2]328,548,389	286,095,584	16,452,805	26,000,000
2	Communications	23,518,952	21,674,219	1,844,733	
3	Consumer and Corporate Affairs	25,570,757	23,945,624	1,625,133	
4	Energy, Mines and Resources	178,093,378	175,580,401	2,512,977	
5	Environment	204,646,094	200,723,618	3,922,476	
6	External Affairs	[3]338,170,728	314,448,113	889,212	22,833,403
7	Finance	[4]3,546,418,766	3,542,080,393	4,338,373	
8	Governor General and Lieutenant-Governors	1,273,737	1,197,180	76,557	
9	Indian Affairs and Northern Development	[5]432,493,906	426,643,569	3,532,922	2,317,415
10	Industry, Trade and Commerce	446,931,428	362,699,299	16,232,129	68,000,000
11	Justice	29,449,893	28,718,595	731,298	
12	Labour	18,802,422	17,306,385	1,496,037	
13	Manpower and Immigration	[6]868,593,539	792,916,827	75,676,712	
14	National Defence	1,900,145,149	1,895,174,857	4,970,292	
15	National Health and Welfare	2,709,816,507	2,706,075,107	3,741,400	
16	National Revenue	187,398,188	185,245,489	2,152,699	
17	Parliament	35,020,652	32,596,913	2,423,739	
18	Post Office	418,631,832	413,334,381	5,297,451	
19	Privy Council	16,551,520	15,530,661	1,020,859	
20	Public Works	339,720,141	336,756,429	2,963,712	
21	Regional Economic Expansion	374,499,850	346,393,152	28,106,698	
22	Secretary of State	[7]869,974,338	867,834,331	2,069,514	70,493
23	Solicitor General	265,816,626	260,062,194	5,754,432	
24	Supply and Services	84,800,306	83,725,799	1,074,507	
25	Transport	534,653,570	512,446,351	22,207,219	
26	Treasury Board	496,296,096	438,428,372	57,867,724	
27	Urban Affairs and Housing	133,452,064	129,944,587	3,507,477	
28	Veterans Affairs	443,617,090	423,286,721	20,330,369	
		15,252,905,918	14,840,865,151	292,819,456	119,221,311

[1] Available for expenditure in subsequent fiscal years: Department of Agriculture vote 15, 1970-71 $26,000,000; Department of External Affairs vote 20, 1971-72 $22,833,403; Department of Indian Affairs and Northern Development vote 30, 1970-71 $2,317,415; Department of Industry, Trade and Commerce vote 29b, 1971-72 $68,000,000; Department of Secretary of State vote 2b, 1969-70 $70,493.

[2] Includes $10,000,000 carried forward from vote 15, Department of Agriculture 1970-71 appropriations.

[3] Includes $5,556,170 carried forward from vote 20, Department of External Affairs 1970-71 appropriations.

[4] Includes $2,800,000 carried forward from vote 11a, Department of Finance 1970-71 appropriations.

[5] Includes $962,343 carried forward from vote 35, Department of Indian Affairs and Northern Development 1970-71 appropriations.

[6] Includes $28,419,915 carried forward from vote 7b (formerly Department of Labour 1970-71) and $15,404 carried forward from vote 10, Department of Manpower and Immigration 1970-71 appropriations.

[7] Includes $217,153 carried forward from vote 2b and $9,844,894 carried forward from vote 22a, Department of Secretary of State 1970-71 appropriations.

S. S. REISMAN,
Deputy Minister of Finance.

H. R. BALLS,
Deputy Receiver General for Canada.

Auditor General's Certificate

The accounts relating to the expenditures as set forth in the above statement have been examined under my direction and subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1972.

A. M. HENDERSON
Auditor General.

(This Summary is to be found on page 9.6 of the Public Accounts, Volume I, and the sections referred to therein are those in the Public Accounts, Volume II)

EXHIBIT 4

Summary of Revenue by Main Classification and Departments for the Fiscal Year ended March 31, 1972

Section (Volume II)	Department	Tax revenue	Return on investments	Bullion and coinage	Postal revenue	Privileges licences and permits	Proceeds from sales	Services and service fees	Refunds of previous years' expenditure	Miscellaneous	Total
		$	$	$	$	$	$	$	$	$	$
1	Agriculture		74,446,978			264,454	2,009,604	9,381,393	72,107	88,608	86,263,144
2	Communications		2,107,915				3		42,349	148	2,150,415
3	Consumer and Corporate Affairs					7,897,508	43	3,088,628	5,918	539,666	11,531,763
4	Energy, Mines and Resources		4,161,940			925,569	92,819	24,427	191,395	18,375	5,414,525
5	Environment		846,986			1,529,877	1,458,027	282,806	171,814	117,387	4,406,897
6	External Affairs		1,893,136			224,088	1,081	312,039	229,033	310,078	2,969,455
7	Finance	392,358	564,080,543	23,549,984			6	602,566	448,565	3,433,267	592,507,289
9	Indian Affairs and Northern Development		7,196,038			8,393,214	667,143	150,394	499,993	733,119	17,639,901
10	Industry, Trade and Commerce		24,434,468					80,733	1,005,242	377,433	25,897,876
11	Justice						1,488	40,284	21,536	201,851	265,159
12	Labour		855				1,830	4,159	27,387	103,960	138,191
13	Manpower and Immigration		276,080			11,101	14,078	31,242	972,210	694,037	1,998,748
14	National Defence		1,087,514						3,027,938	501,607	4,617,059
15	National Health and Welfare					14,105		615	695,811	1,163,544	1,874,075
16	National Revenue	12,561,525,164	77,471			82,046	486,456	445,934	75,091	6,336,035	12,569,028,197
17	Parliament					8,483		2,382	49,590	28,897	89,352
18	Post Office		12		403,791,138				91,099	37,407	403,919,656
19	Privy Council								6,860	8,139	14,999
20	Public Works					6,099,043	64,040	1,697,201	852,959	826,288	9,539,531
21	Regional Economic Expansion		15,414,764			1,492,536	169,240	1,197,428	2,889,682	547,872	21,711,522
22	Secretary of State		8,510,322			773,764	18,029	54,413	319,197	84,689	9,760,414
23	Solicitor General		404,624			62,451	289,821	34,532	322,592	197,783	1,311,803
24	Supply and Services		3,224,880			85,524	7,935,937	432,128	92,192	629,548	12,400,209
25	Transport		77,072,360			463,023	97,676		1,755,591	2,076,569	81,465,219
26	Treasury Board								213,023	112	213,135
27	Urban Affairs and Housing		324,257,953				2,370,230		2,977,070	1,463,429	331,068,682
28	Veterans Affairs		23,736,271						4,425,557	198,726	28,360,554
		12,561,917,522	1,133,231,110	23,549,984	403,791,138	28,326,786	15,677,551	17,863,304	21,481,801	20,718,574	14,226,557,770

S. S. REISMAN,
Deputy Minister of Finance.

H. R. BALLS,
Deputy Receiver General for Canada.

Auditor General's Certificate

The accounts relating to the revenue set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1972.

A. M. HENDERSON,
Auditor General.

(This Summary is to be found on pages 9.10 and 9.11 of the Public Accounts, Volume I, and the sections referred to therein are those in the Public Accounts, Volume II)

EXHIBIT 5

BUDGETARY EXPENDITURE BY STANDARD OBJECTS
FOR FISCAL YEAR ENDED MARCH 31

(in millions of dollars)

	Fiscal year ended March 31		
	1971	1972	Increase or decrease (−)
	Expenditure	Expenditure	
Salaries and wages (1)	2,644	2,980	336
Other personnel costs (1)	580	620	40
Transportation and communications (2)	312	347	35
Information (3)	34	45	11
Professional and special services (4)	443	556	113
Rentals (5)	94	122	28
Purchased repair and upkeep (6)	189	183	−6
Utilities, materials and supplies (7)	357	403	46
Construction and acquisition of land, buildings and equipment (8)	295	386	91
Construction and acquisition of machinery and equipment (9)	265	300	35
Grants, contributions and other transfer payments (10)	6,008	6,857	849
Public debt charges (11)	1,825	2,013	188
All other expenditures (12)	541	529	−12
Total standard objects (1-12)	13,587	15,341	1,754
Less: receipts and revenues credited to the vote (13)	−405	−500	−95
Total net expenditures	13,182	14,841	1,659

(This Table is to be found on page 4.5 of the Public Accounts, Volume I)